



MMI HOLDINGS



2015
integrated report

OUR APPROACH TO INTEGRATED REPORTING

ABOUT MMI

MMI is a JSE Top 40 listed South African financial services group, committed to a client-centric strategy that is purposefully focused on solving our clients' problems in order to enhance their lifetime financial wellness. We use our client-facing brands, mainly Metropolitan, Momentum, Guardrisk and Eris, and MMI's financial services and other capabilities to enhance the financial wellness of individual clients, small and medium businesses, large companies, organisations and public enterprises in South Africa, the rest of Africa and selected international countries. MMI has strong capabilities in:

- Long and short-term insurance for individuals and corporates
- Asset management, property management, investment and savings
- Healthcare administration and health risk management
- Client engagement solutions, including financial wellness and rewards programmes

SCOPE OF THE REPORT

Our 2015 integrated report provides a comprehensive overview of the activities of the MMI Holdings Ltd group (MMI) as well as its financial and non-financial performance for the 12 months from 1 July 2014 to 30 June 2015.

The report also gives a detailed overview of the group's client-centric operating model, its strategy and all financial and non-financial matters that are considered material. Matters are considered material if they can affect the group's ability to create value for all stakeholders.

FINANCIAL STATEMENTS

Our financial statements for the financial year ended 30 June 2015 have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, the Long-term Insurance Act, 52 of 1998, and the Short-term Insurance Act, 53 of 1998, as amended and comply with International Financial Reporting Standards (IFRS) and guidelines issued by the Actuarial Society of South Africa.

The financial disclosure in this report is consistent with that of the 2014 year-end and the 2015 interim financial results. MMI is in the process of phasing in a new client-centric operating model announced in March 2014. Appropriate changes in financial reporting will be introduced as the group progresses with the operating model implementation.

ASSURANCE

The non-financial content of this report was prepared by management and approved by the MMI Holdings board through its relevant committees. External assurance of non-financial matters has been limited to our broad-based black economic empowerment scorecard, verified by accredited ratings agency NERA (please see page 23 for more detail), and our carbon footprint, verified by Global Carbon Exchange. Both certificates are available on our website, www.mmiholdings.com.

Our independent auditors, PricewaterhouseCoopers, have provided external assurance in respect of the group annual financial statements and reviewed the group embedded value report.

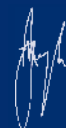
APPROVAL BY THE MMI BOARD OF DIRECTORS

The board acknowledges its responsibility for ensuring the integrity, objectivity, reliability and transparency of the integrated report.

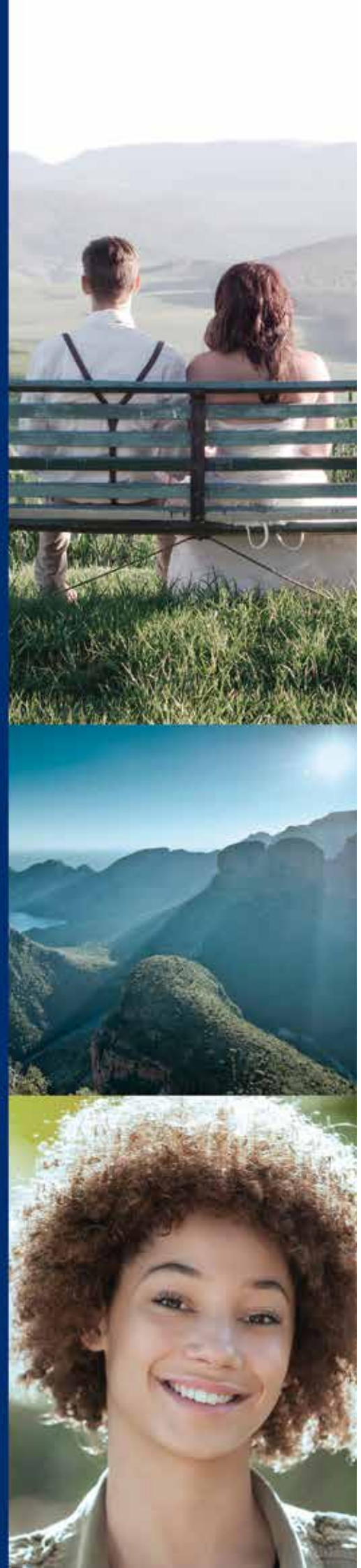
The Audit Committee of the board has also evaluated the integrated report, prepared from information provided by management and considers the group annual financial statements compliant, in all material respects, with the required legislation and standards.



NICOLAAS KRUGER
Group chief
executive officer



JJ NJEKE
Chairman



Certain statements in this integrated report may be defined as forward-looking within the meaning of the United States Securities Legislation.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that could result in the actual results, performance or achievements of the group being materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements may be identified by words such as *expect, believe, anticipate, plan, estimate, intend, project, target, predict, outlook*, and words of similar meaning.

Forward-looking statements are not statements of fact but statements by the management of MMI based on current estimates, projections, beliefs, assumptions and expectations regarding the group's future performance.

No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

Forward-looking statements apply only as of the date on which they are made, and MMI does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

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MMI ONLINE

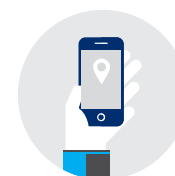
All information contained in our integrated report is published on our website at www.mmiholdings.com.

Sustainability information is available in the sustainability section of the MMI website www.mmiholdings.com. You can also find information on our share price performance and other economic data in the investor relations section.

Our registered office is situated at 268 West Avenue, Centurion, South Africa

+27 12 671 8911

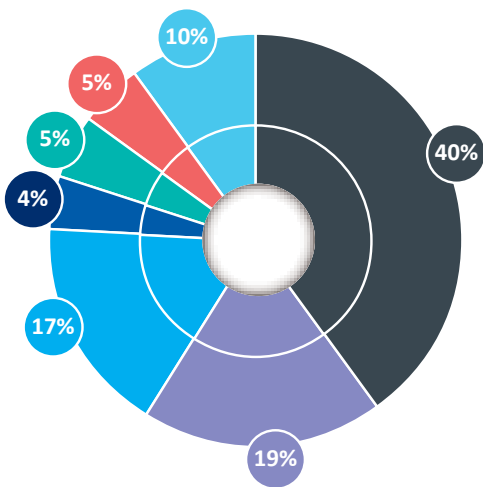
www.mmiholdings.com



HIGHLIGHTS

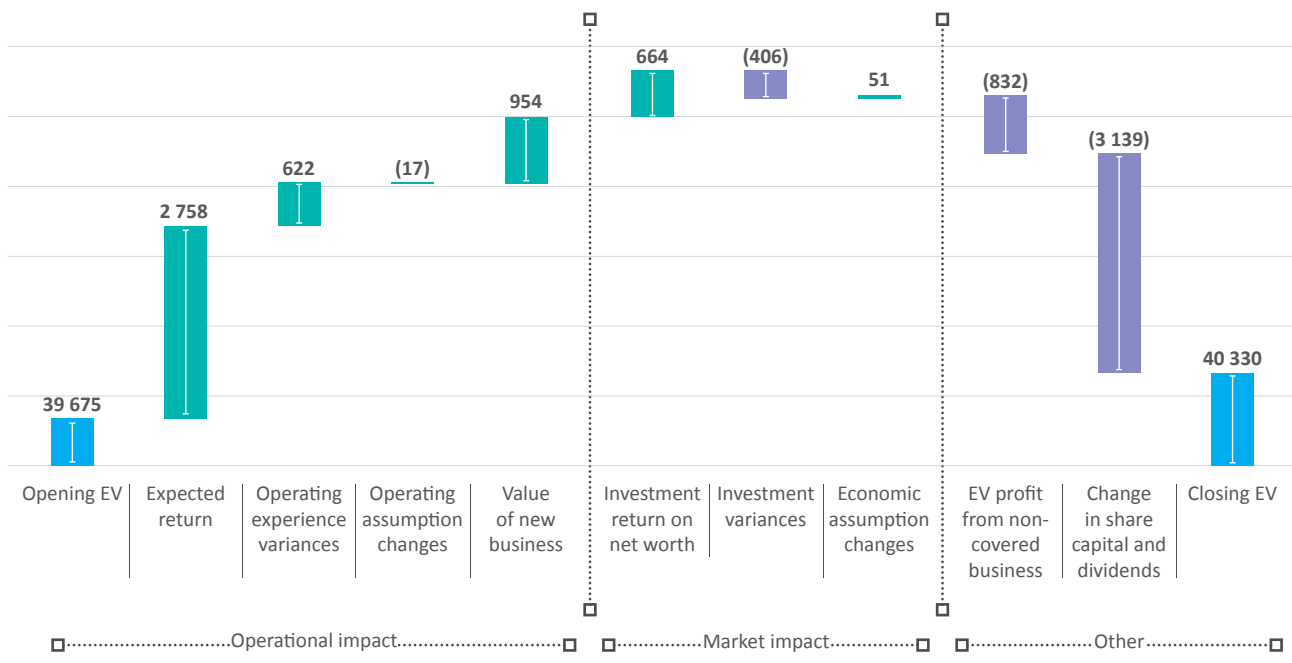
<p>New business PVP</p> <p>↑ 21% to R50 billion</p>	<p>VALUE of NEW BUSINESS</p> <p>↑ 22% to R954 million</p>	<p>RETURN on EMBEDDED VALUE of</p> <p>10%</p>
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DILUTED CORE HEADLINE EARNINGS CONTRIBUTION PER DIVISION AT 30 JUNE 2015



	June 2015 Rm	June 2014 Rm	Change
Momentum Retail	1 531	1 372	12%
Metropolitan Retail	738	587	26%
Momentum Employee Benefits	660	516	28%
International	152	122	25%
Momentum Investments	181	197	(8%)
Metropolitan Health	209	171	22%
Operating divisions	3 471	2 965	17%
Shareholder capital	365	656	(44%)
Total	3 836	3 621	6%

EMBEDDED VALUE (EV) ANALYSIS (Rm)



ROEV 10%

PROFITS from OPERATING DIVISIONS

↑ **17%**
to R3.5 billion

CORE HEADLINE EARNINGS

↑ **6%**
to R3.8 billion

TOTAL DIVIDEND

↑ **9%**
to 155 cents per share

CAPITAL STRENGTH

Economic capital	Rbn
Net asset value as per embedded value statement	16.5
Qualifying debt	3.3
Less: net asset value of strategic subsidiaries	(2.0)
Less: required capital	(10.6)
Capital buffer before deployment	7.2
Deployed	(2.9)
Final dividend	(1.5)
Debt issue and redemption	0.3
Strategic: Committed	(0.7)
Growth initiatives	(1.0)
Capital buffer after deployment	4.3

MMI SHARE INFORMATION

	2015	2014	
Listed ordinary shares	1.6	1.6	bn
Preference shares	32	34	m
Total shares in issue	1.6	1.6	bn
Share price at year-end	3 015	2 625	cents
Fully diluted headline earnings per share	181.4	204.0	cps
Market capitalisation at year-end	48	42	bn

EMPLOYEES



SA employees:

14 595



International employees:

2 644

SKILLS DEVELOPMENT



Investing R94 million on the provision of learnerships and internships for black employees and unemployed youth; R51 million (54%) was allocated to black females

TRANSFORMATION

Level 2 B-BBEE status



FOUR-YEAR FINANCIAL REVIEW

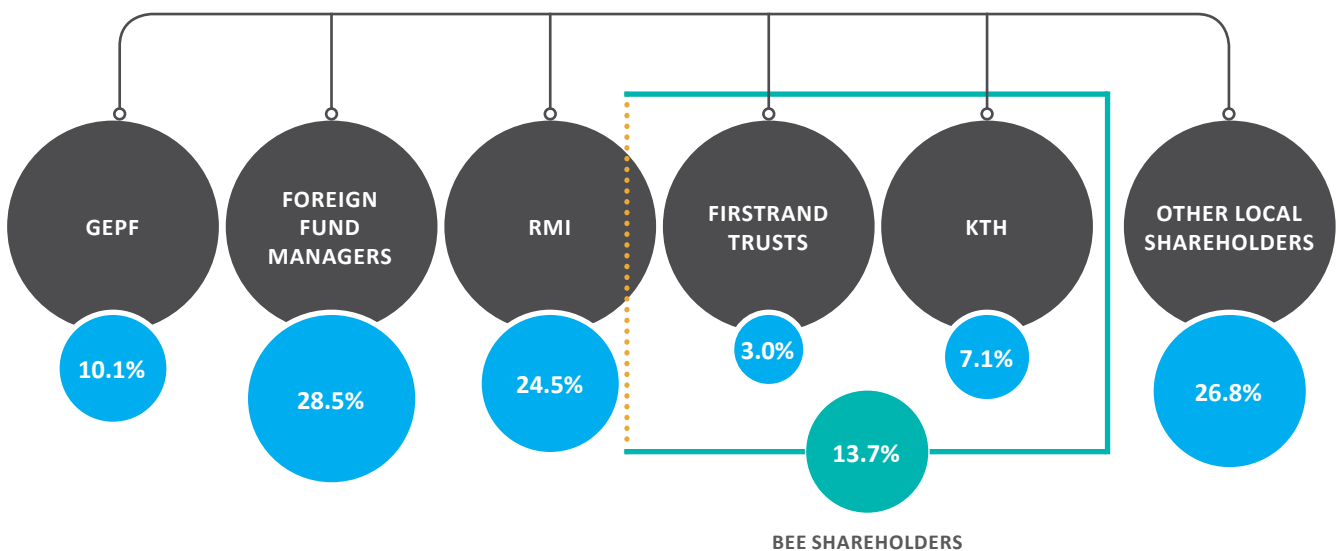
	June 2015 Rm	June 2014 Rm	June 2013 Rm	June 2012 Rm
Net insurance premiums	64 819	56 242	56 739	45 552
Momentum Retail	24 017	22 517	18 575	17 148
Metropolitan Retail	6 910	6 820	6 246	6 042
Momentum Employee Benefits	21 131	17 343	12 228	9 712
International	3 563	2 898	2 535	1 960
Momentum Investments	8 305	6 262	16 819	10 661
Metropolitan Health	387	47	37	29
Shareholder Capital	506	355	299	–
New business premiums (PVP)	50 396	41 739	35 357	32 053
Momentum Retail	22 924	20 434	17 421	16 384
Metropolitan Retail ¹	5 117	4 948	4 674	4 916
Momentum Employee Benefits	20 191	14 491	11 627	9 421
International	2 164	1 866	1 635	1 332
Value of new business	954	779	681	536
Momentum Retail	246	240	203	173
Metropolitan Retail	186	236	209	199
Momentum Employee Benefits	456	254	213	130
International	66	49	56	34
Diluted core headline earnings	3 836	3 621	3 241	2 955
Momentum Retail	1 531	1 372	1 158	1 064
Metropolitan Retail	738	587	509	438
Momentum Employee Benefits	660	516	341	249
International	152	122	108	57
Momentum Investments	181	197	175	125
Metropolitan Health	209	171	140	133
Shareholder Capital	365	656	810	889
Earnings attributable to owners of the parent (Rm)	2 857	3 197	2 587	2 301
Dividend per share (cents)	155	142	127	113
Special dividends (cents)	–	50	–	65
Diluted embedded value (Rm)	40 330	39 675	35 148	32 472
Return on embedded value (%) (annualised) – internal rate of return	9.6%	19.0%	17.4%	11.3%
Price/diluted core headline earnings (segmental) ratio	12.6	11.6	11.0	9.8
Dividend yield % (dividend on listed shares)	5.1%	5.4%	5.7%	6.3%
Last sale of period (cents per share)	3 015	2 625	2 217	1 800

¹ The prior years have been restated to only reflect the initial inflows on certain early retirement annuity business.

The comparability of the numbers across the different years is distorted by the acquisitions made during each period.



SHAREHOLDER STRUCTURE



MMI'S GROUP STRATEGY

MMI's client-centric corporate strategy is centred on its core fundamental purpose to enhance the *lifetime financial wellness* of people, their communities and their businesses.

This strategy aims to generate *superior returns* through *relational value leadership*, in terms of which *superior value* is created for clients through the *design, integration and management of holistic solutions* to client challenges around becoming and staying financially well throughout their lives.

While we remain committed to being competitive in terms of price and quality products, the *key focus* of our strategy is on building deep relationships with clients by achieving leadership in the high-value part of the value chain, namely the integration of highly effective financial wellness solutions.

Purpose

To enhance the lifetime financial wellness of people, their communities and their businesses.



MMI's financial aspirations

Our main focus is on long-term value creation, measured by MMI's return on embedded value (ROEV). This objective is supported by an emphasis on the following financial aspirations:

- Growth in earnings
- Growth in value of new business (VNB)
- Increased financial strength
- Improved efficiencies

Our values

Accountability	Excellence	Integrity
Diversity	Innovation	Teamwork



How clients experience MMI

For MMI to be successful in enhancing the lifetime financial wellness of its clients, it is very important that clients experience the different MMI brands as:

- Understanding their needs
- Offering "Value for money"
- Providing "Easy to use" products
- Reliable and trustworthy
- Investing in the communities where they operate
- Designing innovative solutions

Strategic vision

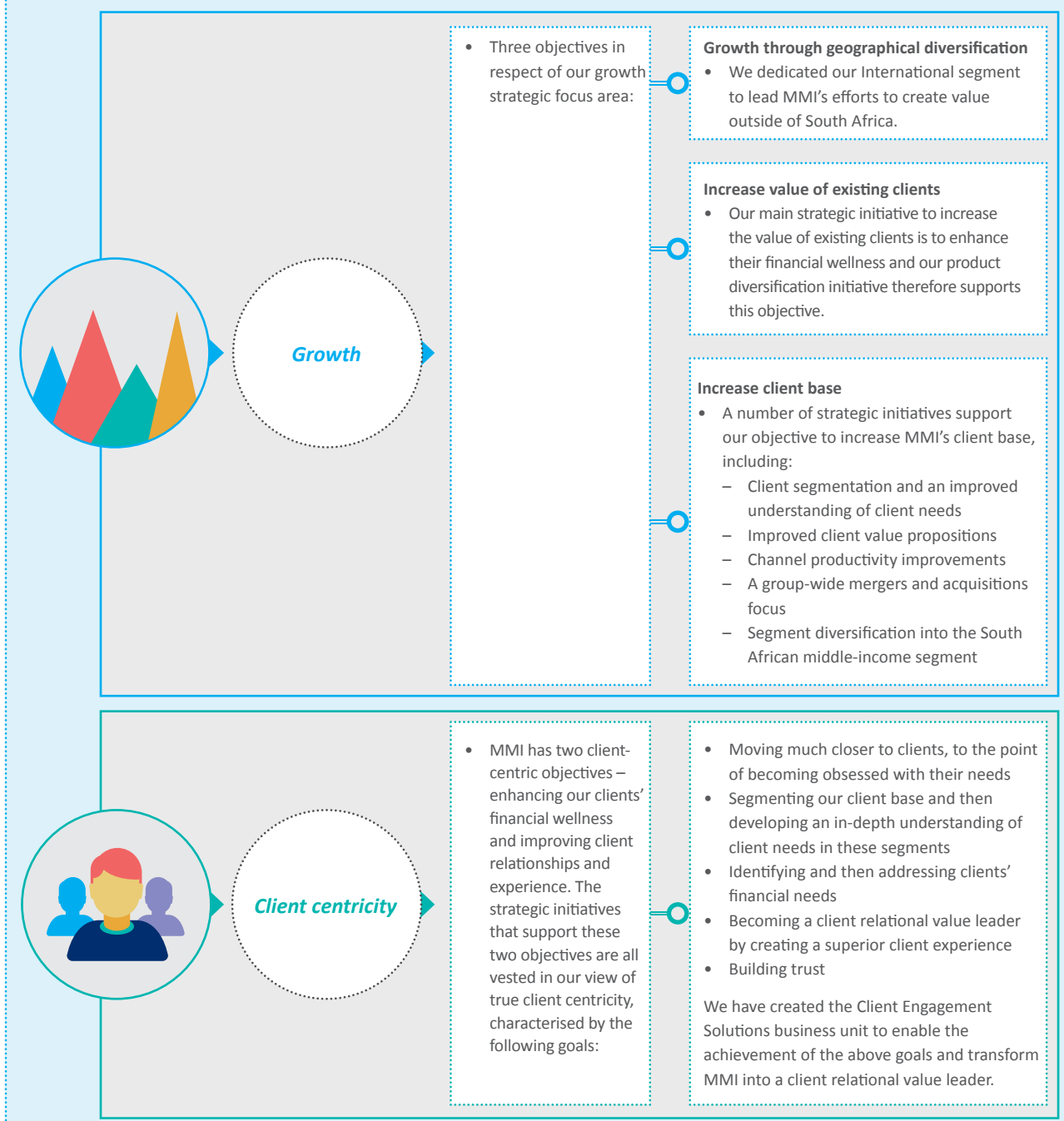
To be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness.

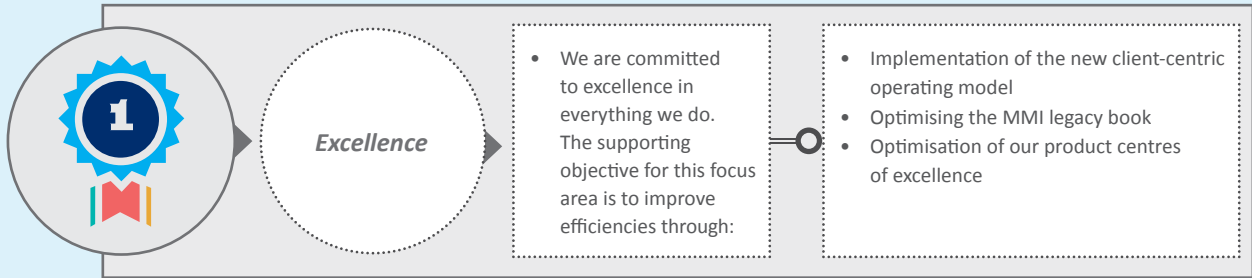
STRATEGIC FOCUS AREAS

The following three focus areas determine our internal objectives and related strategic initiatives that are required to achieve our aspirations.



In order to realise our strategic aspirations the following objectives have been identified for each of the three strategic focus areas.



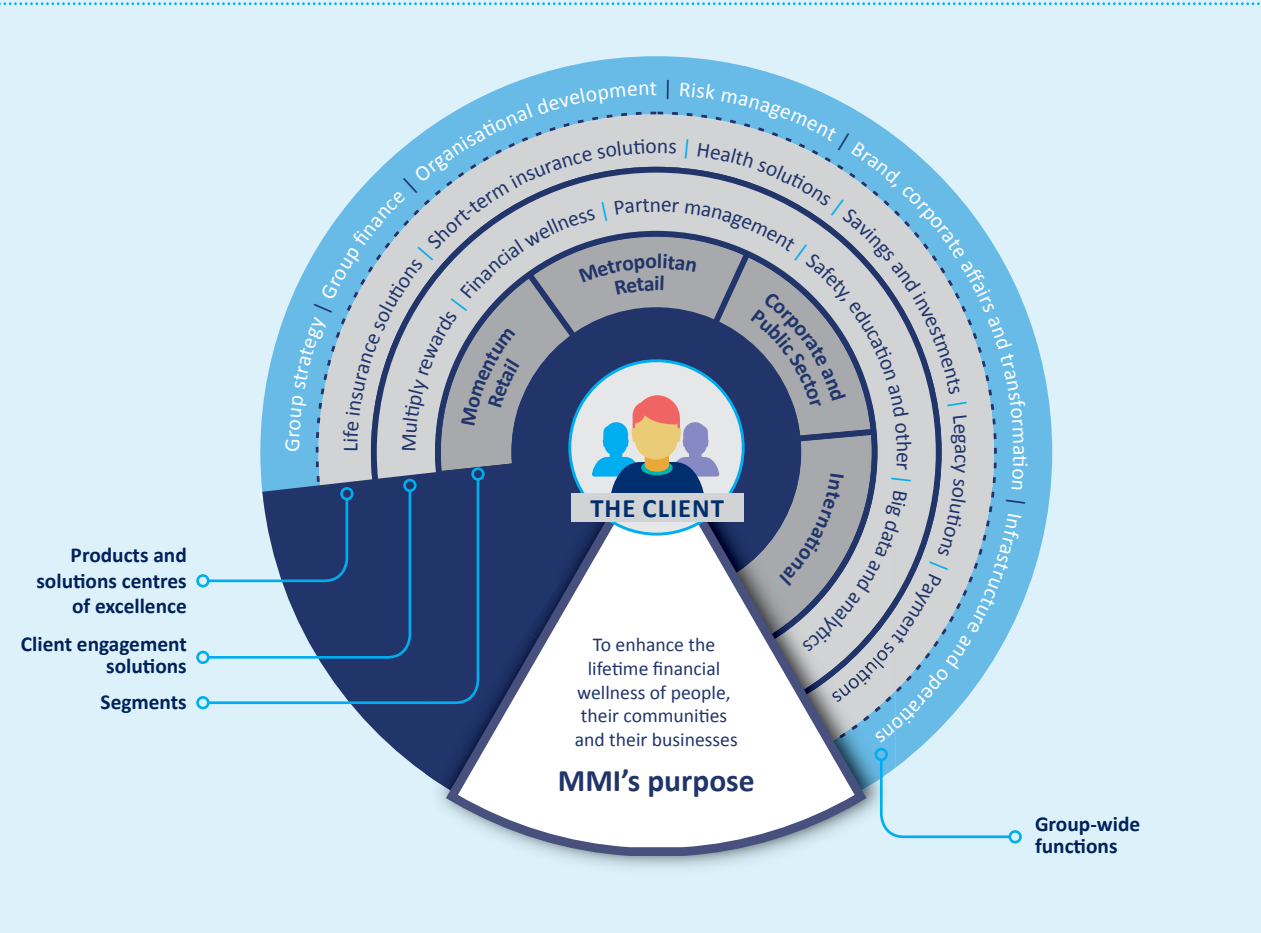


In order to achieve our purpose to enhance the lifetime financial wellness of people, their communities and their businesses, we rely on four critical enablers.



MMI'S OPERATING MODEL

The MMI operating model centres on establishing and maintaining a life-long relationship with its clients, enhancing their financial wellness by offering a diverse range of products through all cycles of life. It is a strongly collaborative operating model where the needs of clients in our segment businesses are met by solutions provided by MMI's Client Engagement Solutions and Products and Solutions businesses.



MOMENTUM RETAIL

Momentum Retail's purpose is to enhance the lifetime financial wellness of people, their families, communities and businesses.



STRATEGY

The focus is on three main segments – the upper and middle retail segments, and the small business segment in South Africa, offering innovative and appropriate wealth creation, risk and savings solutions.

We will ensure that we understand clients and their needs intimately and build client value propositions (CVP) to optimally address these needs. See the CVP graphic in the MMI online integrated report at www.mmiholdings.com.

Historically, independent financial advisers dominated distribution in this segment. Although this is still a major source of business, we have adopted an omni-channel approach, with clients at the centre, interacting with their channels of choice. Business from tied financial planners has increased significantly over the last five years. Over the last year, the retail arm of Momentum Consult also grew significantly. In addition, we have started focusing on digital engagement channels for relevant segments and solutions.



PROFIT DRIVERS

- Sales volumes and mix
- Persistency
- Expense management
- Investment performance
- Effective underwriting, pricing and claims management



STRATEGIC INITIATIVES

- Entrench the Middle Market offering
- Continue building and diversifying distribution capability
- Strengthen wealth management capabilities and solutions
- Implement strategic channel and client interaction capabilities



DISTRIBUTION



>6 000 independent financial advisers



660 tied financial planners operating in the upper-income segment



117 Momentum Consult advisers operating in the upper-income segment



50 middle-income segment financial planners in the field

momentum

METROPOLITAN RETAIL

Metropolitan Retail's purpose is to enhance the lifetime financial wellness of people, their families and their communities through empowerment and education.



STRATEGY

We target the entry-level market retail segments in South Africa with a focus on client value, ease of interaction, empowering advice and a lifetime engagement. The following sub-segments have been identified:

- Traditionalists – Young, informally employed (high school)
- Survivalists – Seniors/retired, informally employed (primary education)
- Realists – Marginally older, less educated and earning less than Aspirers
- Aspirers – Aged between 25 – 40, more educated, higher earning households
- Strivers – Aged between 25 – 40, urban formal, better educated with a university qualification and mostly employed

Products and solutions on offer are savings, income generation and income protection (risk) and dignified funeral products. These solutions are delivered through the client value proposition (CVP). See the CVP graphic in the MMI online integrated report at www.mmiholdings.com.



STRATEGIC INITIATIVES

- New generation client value proposition
- Channel productivity
- Migration of existing clients to new generation technology platforms
- Integrated sales and service architecture – deliver client-centric engagement
- Channel diversification



DISTRIBUTION

- **3 161** tied agents
- **4** call centres
- **1 223** brokers
- **>100** sales offices countrywide



PROFIT DRIVERS

- Volume and mix of new business
- Retention of new and existing business – client retention
- Expense management
- Effective underwriting, pricing and claims management
- Investment performance – absolute and relative

METROPOLITAN 



CORPORATE AND PUBLIC SECTOR

In order to enhance the lifetime financial wellness of businesses, employees, customers and their communities, we place the client at the centre of everything we do.

This requires deepening industry and sector insights about the institutions that we serve and focusing on the strategic issues that affect them and their employees.



STRATEGY

Our client-centric strategy includes:

- Segmenting institutional clients using a multi-dimensional basis and metrics (eg number of employees and industry type)
- Deepening our knowledge of client segments that we serve, including the key issues facing the industries and sectors in which they operate
- Assisting institutional clients to enhance the financial wellness of their employees and workers in support of their own corporate strategies
- Combining our segment know-how and the capabilities within MMI's products and solutions centres of excellence to design a holistic client value proposition (CVP)
- Extending our financial wellness proposition to the institutional clients through solutions that:
 - Grow their profitability
 - Protect their asset base
 - Enhance their sustainability



PROFIT DRIVERS

- Effective underwriting, pricing and claims management
- Asset-based charges on investment and annuity business
- Risk business margins
- Fee income on administration business
- Operational efficiencies



BRANDS

We deliver on our CVP through the following brands:

- **Momentum**
- Metropolitan
- **Guardrisk**
- Eris
- OcsaCare
- CareCross
- Hello Doctor
- Providence
- Bluubin



PRODUCTS

We focus on medium to large corporates, affinity groups, labour unions and the public sector institutions by offering:

- Investment and annuity solutions
- Life and short-term insurance solutions
- Medical scheme benefits and administration of closed schemes
- Alternative risk transfer arrangements (eg cell captives)
- Corporate income statement and balance sheet enhancement solutions
- Retirement solutions (umbrella and free-standing fund administration)



DISTRIBUTION



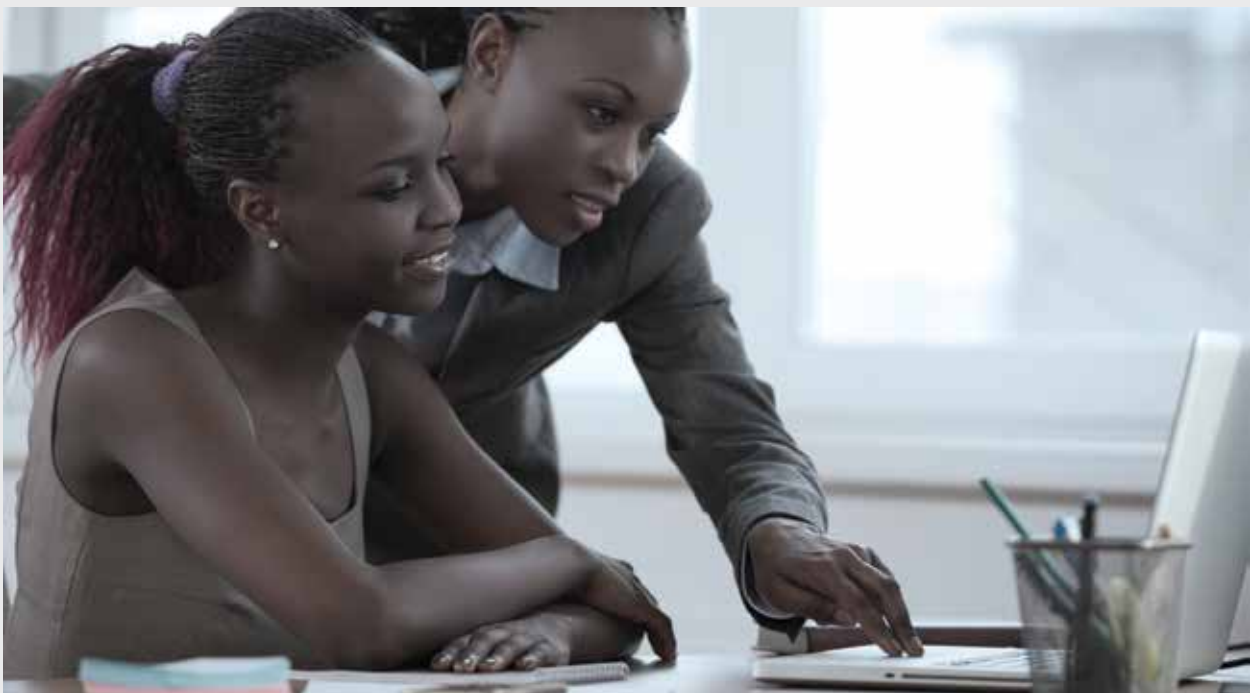
500 brokers



10 tied agents



8 branches



STRATEGIC INITIATIVES

- Increase client base in target markets
- Increase value of existing client base
- Improve understanding of clients
- Improve alignment of needs and client value proposition
- Improve long-term relationships with clients and stakeholders
- Improve overall efficiency
- Deliver a consistent excellent client experience



INTERNATIONAL

The International segment allows us to manage our global expansion holistically, to enhance the lifetime financial wellness of people, their communities and their businesses and takes care of client needs in the selected segments of countries where we are represented.



STRATEGY

This segment is responsible for managing the group's holistic global expansion, offering:

- Risk, savings and investment products
- Retirement fund administration
- Health insurance products and administration
- Short-term insurance



DISTRIBUTION

Methods of distribution vary from country to country and include:

- Tied agents
- Brokers
- Call centres
- Alternative distribution methods, eg through mobile technology



STRATEGIC INITIATIVES

- Successfully implement the Indian joint venture
- Scale the East and West African operations through organic growth and selective acquisitions
- Drive regional hub autonomy and foster collaboration
- Restructure the centre cost base



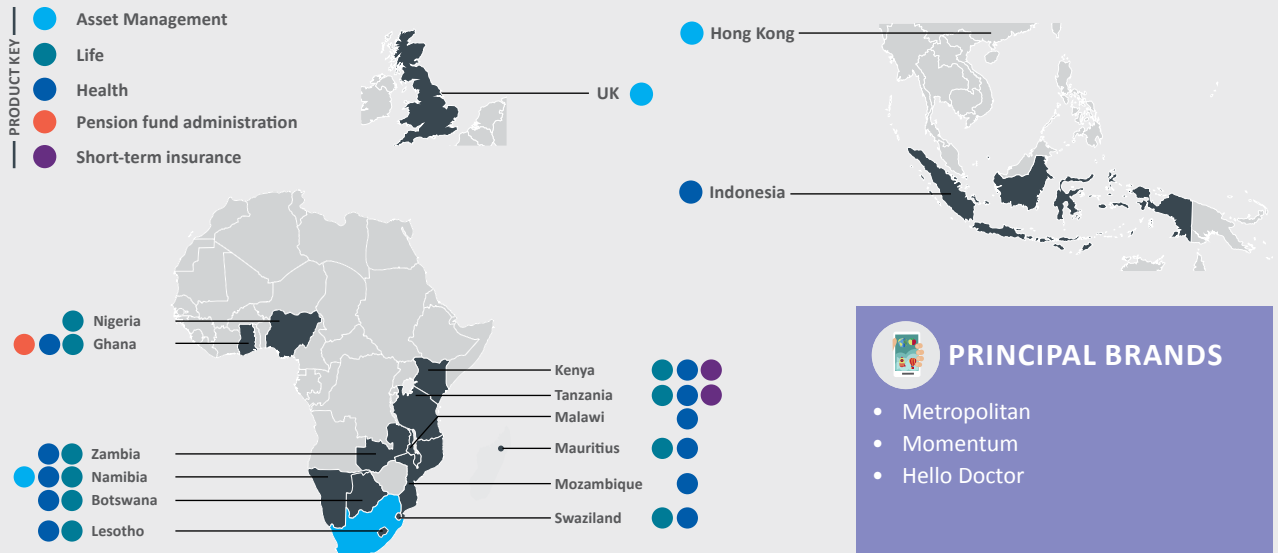
PROFIT DRIVERS

- Effective underwriting, pricing and claims management

- Sales volumes and mix
- Expense management
- Investment performance
- Retention of existing clients

PRODUCT KEY

- Asset Management
- Life
- Health
- Pension fund administration
- Short-term insurance



PRINCIPAL BRANDS

- Metropolitan
- Momentum
- Hello Doctor

PRODUCTS AND SOLUTIONS BUSINESS

The purpose of this segment is to enhance the financial wellness of people, their communities and their businesses, by using our technical capabilities and insights to innovate and create value in the delivery of solutions.



STRATEGY

The Products and Solutions business consists of the following centres of excellence, specialising in:

- *Investments and savings solutions* that provide a single investment capability with an outcomes-based investment philosophy to all segments of the group
- *Life insurance solutions* to all segments across the group based on their clients' needs
- *Legacy solutions* that hosts the product and system capabilities of legacy products across MMI
- *Short-term insurance responsible* for designing and making suitable products available as required by segments across the group
- *Health solutions* offering medical scheme administration and a platform for the Momentum Health open scheme and CareCross
- *Payment solutions* that enhance transactional capabilities, facilitate emergency access to funds, enhance customer insight into spending and borrowing needs and behaviour, and improve value



STRATEGIC INITIATIVES

- Identify and build unique intellectual property to be leveraged
- Communicate unique intellectual property to segment businesses
- Understand specific segment environment needs and client value propositions
- Rework product solutions to better fit segment client value propositions
- Identify areas of optimisation in each centre of excellence
- Alignment and leverage of quality resources



CLIENT ENGAGEMENT SOLUTIONS

This business unit was established to combine new technologies, business ecosystems and its deep understanding of human behaviour to help clients become more financially well.

Client Engagement Solutions will be instrumental in creating a superior client experience and will use the deep client understanding of MMI's segment businesses as its point of reference to achieve this goal. In turn, the segment businesses will rely on Client Engagement Solutions for client experience and financial wellness solutions to improve the relationship with customers in their segments.

The Client Engagement Solutions business uses compelling rewards to drive client behaviour that improves financial wellness and increases the value of existing clients. Our Multiply Rewards programme offers clients excellent discounts on products and services from more than 40 well-known brands. It offers participants in the programme the opportunity to save money on gym memberships, fitness assessments, travel and leisure, gadgets and online shopping.

We have also teamed up with Unisa to launch The Momentum Household Financial Wellness Index and The Momentum Household Net Wealth Report – a first of its kind for South Africa.

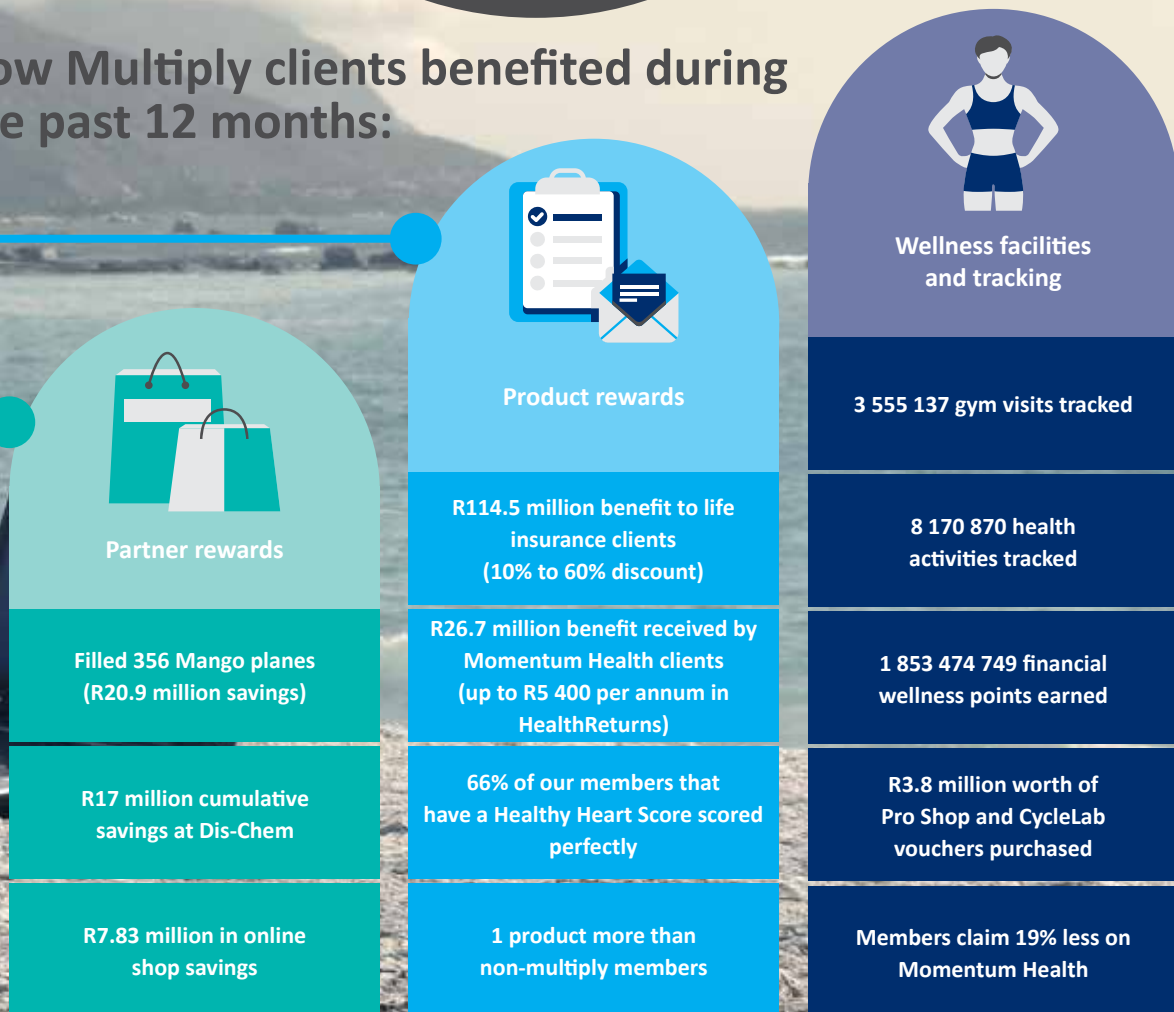


**Value of
R301 million
created for
customers**

multiply
wellness & rewards

Our vision
“To be the leader in partnering with and rewarding people on their journeys to wellness.”

How Multiply clients benefited during the past 12 months:



MMI employees embrace innovation



For MMI, innovation is:

- Core to our vision and purpose
- One of our values
- A key enabler

MMI launched its innovation programme, MMIgnite towards the end of 2014. MMIgnite is a **social-based collaborative approach** to innovation where all employees are encouraged to put forward new ideas to stimulate innovation throughout the organisation.

The MMI Innovation agenda is linked to its **three key strategic focus** areas of growth, client centricity and excellence.

By focusing our **innovation** agenda on our **strategic objectives** we can ensure:

- Client satisfaction
- Product and service innovation
- New and improved ways of doing things
- Profitability through increased revenue and cost savings
- Growth

What we have done to date

We have mobilised and energised a large proportion of our employees to use the MMIgnite software platform to log their innovation ideas, and rank and comment on other employees' ideas. A number of these ideas are already being implemented. This is a significant achievement in a very short time and it is very encouraging to see the value already being created through our innovation focus, by tapping into the creative minds of each and every employee.



KEY PERFORMANCE INDICATORS

MMI assesses its operational performance against a set of key performance indicators that are approved and annually reviewed by the group's Remuneration Committee. The set of indicators include both short-term and longer-term objectives.

PERFORMANCE SCORECARD 2015

	Weight	F2015 target	Actual	Achieved
Return on embedded value*	20%	GDP plus 3%	10.6%	↔
Value of new business	20%	R880 million	R954 million	↑↑↑
Core headline earnings	25%	GDP plus 3%	6%	↓↓
Transformation	15%	FSC score of 75	91	↑↑↑
Strategic initiatives	20%	Self-assessment		↑↑

* For short-term incentive scorecard purposes, investment variances are excluded from the return on embedded value.

The above relates to group-wide targets and deliverables. In addition, specific targets have been set for each division and subsidiary.

LONGER-TERM PERFORMANCE INDICATOR – RETURN ON EMBEDDED VALUE (ROEV)

As an indicator of financial performance over the medium to longer term, the group's return on embedded value is measured on an annual basis, but averaged over a rolling three-year period. The targeted rate of return has been set at 300 basis points in excess of the annual growth in South Africa's gross domestic product ("GDP + 3%"). An outperformance target equal to GDP + 6% has also been set. The targets are reviewed on an annual basis.

For allocations before 2014, the performance of the group is measured against the targeted hurdle rate of GDP + 3%, as well as against the average ROEV achieved by MMI's peers over the three-year period. For allocations made since 2014, the relative criterion against competitors has been removed, due to the small number of constituents making up the index of comparable SA-listed peers.

The following table is an analysis of the group's ROEV for the year ended 30 June 2015:

	2015	
	Rm	ROEV
Expected return – unwind of risk discount rate (RDR)	2 758	7.0%
Operating experience variances	622	1.6%
Embedded value from new business	954	2.4%
Investment return on adjusted net worth	664	1.7%
Investment variances	(406)	(1.0%)
Non-covered (excl. basis changes)	(557)	(1.4%)
Total (excl. assumption changes)	4 035	10.2%
Operating assumption changes	(292)	(0.7%)
Economic assumption changes	51	0.1%
Total return on embedded value	3 794	9.6%

The returns shown in the table are aggregates for the group, including both covered and non-covered business.

CRITICAL SUCCESS FACTORS

CLIENT CENTRICITY



- MMI is resolutely focused on the optimal execution of our client-centric strategy. We place the client in the centre of everything we do, with the objective to identify and solve our clients' financial wellness needs and problems.
- By segmenting our client base and then developing an intimate understanding of clients' needs and problems in the respective segments, our segment businesses are able to create compelling value propositions for MMI's clients.

REGULATORY COMPLIANCE



- MMI follows an all-inclusive approach that ensures compliance with regulatory requirements across the group. This process enables us to offer appropriate and approved products to clients. It also ensures sound capital management, the protection and growth of shareholder value and clear financial disclosure to stakeholders.
- The group continues to prepare for the adoption of the Solvency Assessment and Management (SAM) regulatory capital regime, which will be applicable from 1 January 2016. Ultimately, SAM will achieve better alignment of stakeholder interests, including enhanced protection of policyholder benefits.

APPROPRIATE BUSINESS RISK MANAGEMENT



- MMI's risk philosophy recognises that mitigating risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests.
- Robust underwriting and a focus on the quality of new business resulted in both the Metropolitan and Momentum Retail businesses having good mortality experience.





CLIENT ENGAGEMENT



- In line with MMI's client-centric strategy and our purpose to enhance the financial wellness of our clients, MMI continues to move towards being a more integrated financial services company.
- MMI's Client Engagement Solutions business plays a pivotal role to align and combine the product building blocks and engagement solutions we need to enhance our clients' financial wellness, and to create world-class engagement experiences.

PRODUCTS AND SOLUTIONS



- Our Products and Solutions business comprises a number of Centres of Excellence that design the product building blocks required to optimally deliver the client value propositions constructed by MMI's segment businesses.

EFFICIENCIES AND SCALE



- MMI's client-centric strategy and operating model structure has been designed to achieve maximum efficiencies and scale across all the businesses in the group.

PEOPLE



- To remain competitive and implement MMI's client-centric strategy successfully, it is paramount that the group is able to attract and retain a highly skilled workforce.

AWARDS AND RECOGNITION



MOMENTUM ASSET MANAGEMENT

- 2015 “Cash Manager of the Year” (Imbasa Yegolide Awards)
- Momentum Money Market Fund assigned the highest money market fund rating in South Africa by Fitch
- Africa AM Power 50 Momentum Africa Equity Fund – Mishnah Seth (2014) (The Africa AM Power 50 is an annual guide to the most influential, innovative and powerful figures in the industry. This year there was a greater emphasis on the portfolio managers who are directly responsible for a fund’s performance.)
- Sunday Times Top Brands survey (2014) – Ranked fourth in the top investment companies category

METROPOLITAN HEALTH

1. PMR Awards

Diamond Arrow award:

- Alternative Fee Structure/Re-Imbursement
- Hospital Utilisation Management
- Managed Dental Programme
- Managed Oncology Programme
- Managed Pathology Programme
- Management of Specialists and General Practitioners
- Wellness Programme

Golden Arrow award:

- Counselling of High Claimers
- Disease Management
- Health Risk Assessments
- Technology Services and Electronic Management

Silver Arrow award:

- Chronic Medication Management
- Managed Radiology Programme

2. New Generation Awards

Silver winner – Most Innovative App (HIV Clinical Guidelines)

EMPLOYEE BENEFITS

Diamond Arrow Award – PMR Africa Award – for the category: Large Pension Fund Administrators and Product Providers: Insurers (Administering More Than 150 000 Members)

MOMENTUM HEALTH

PMR Silver Arrow award for Service

MMI has confirmed broad-based black economic empowerment (B-BBEE) and transformation as strategic objectives, as we understand the importance of transformation in the context of our continued growth and to be the preferred financial wellness partner to our communities. We understand that the current income inequality in the country is not sustainable and as such we need to use our collective efforts to address transformation in its broader context.

Given that transformation is a strategic imperative, MMI monitors and discusses achievement of its transformation objectives monthly at its Group Transformation Steering Committee and MMI Group Executive meetings, as well as quarterly meetings with the Social, Ethics and Transformation Committee (SETC), an MMI board committee.

In 2014, MMI maintained its level 2 contributor status based on the current Financial Sector Charter (FSC) codes. We have made significant strides since the merger and our commitment to transformation is evident in the table below, which illustrates our performance from 2012 to 2014.

MMI HOLDINGS B-BBEE SCORECARD

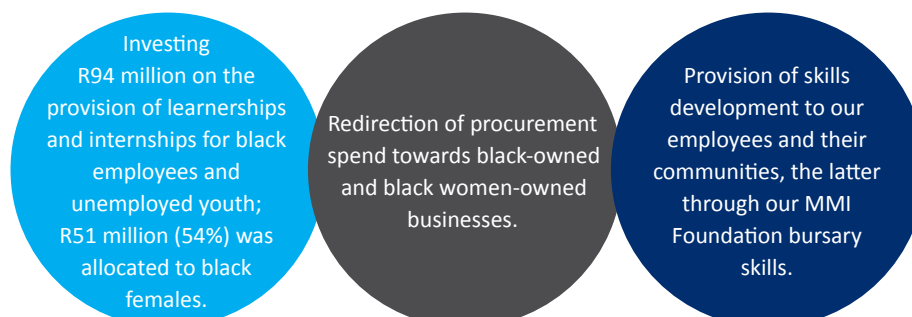
B-BBEE element	FSC B-BBEE maximum points	MMI performance calendar year 2012	MMI performance financial year 2013	MMI Performance financial year 2014	MMI performance calendar year 2014
Equity ownership [^]	14.0	15.7	15.9	17.0	17.0
Management control	8.0	7.8	7.8	8.7	8.7
Employment equity	15.0	9.6	9.8	9.6	9.2
Skills development	10.0	8.7	7.1	6.2	9.0
Preferential procurement	16.0	13.3	12.8	13.6	14.5
Enterprise development*	5.0	15.0	15.0	5.0	5.0
Socio-economic development	3.0	3.0	3.0	3.0	3.0
Empowerment financing	15.0	Exempt*	Exempt*	13.8	13.7
Access to financial services	14.0	Exempt*	Exempt*	10.0	10.9
Total score	100.0	73.1	71.4	86.9	91.0
Performance (%)		90.2%	88.2%	86.9%	91.0%
B-BBEE rating		Level 2	Level 2	Level 2	Level 2

[^] The vesting of the FirstRand Empowerment Trusts had no impact on our performance in the Ownership element, as defined by the FSC.

* Enhanced recognition due to the exemption of Empowerment financing and Access to financial services. In 2014, MMI was not exempted from Empowerment financing, therefore only 5 points were available for Enterprise development and 15 points available for Empowerment financing. MMI was also measured under Access to financial services for the first time.

** It should be noted that MMI completed two B-BBEE verifications in the last year, one that measured the financial year July 2013 – June 2014 and the second being the interim verification, which measured the calendar year Jan 2014 – Dec 2014; this was due to significant changes in the MMI group structure. Subsequent to its listing, MMI acquired, among others, the following entities: Eris, Guardrisk, Providence and CareCross. These entities operate in South Africa, to this end MMI decided to incorporate the entities in the interim B-BBEE verification.

The improvement in the calendar year ending 2014 was mainly driven by skills development and preferential procurement elements, whereby we focused on:



We remain committed to improving our performance in the employment equity pillar, which was impacted by the inclusion of the recently acquired subsidiaries. MMI will continue monitoring and developing strategies to improve the recruitment, retention and training of African, Coloured and Indian employees. This is essential under the Department of Trade and Industry's (dti) revised Codes of Good Practice (CoGP) and the amended Employment Equity Act that have enhanced Economical Active Population (EAP) targets.

MMI HOLDINGS EMPLOYEE PROFILE (SOUTH AFRICA ONLY)

	South Africa								Foreign nationals		Grand total
	African		Coloured		Indian		White		Female	Male	
	Female	Male	Female	Male	Female	Male	Female	Male			
December 2012	4 467	2 776	1 549	882	640	482	1 937	1 233	27	37	14 030
June 2013	4 527	2 737	1 445	835	561	427	1 753	1 129	24	28	13 466
June 2014	4 649	2 667	1 470	849	580	465	1 750	1 191	44	59	13 724
December 2014	5 267	3 025	1 616	913	657	512	2 068	1 371	50	69	15 548

Formal B-BBEE reviews were done for the above periods.

In December 2014, the FirstRand Empowerment Trusts vested, whereby in excess of R650 million was realised by two of the three trusts, while the remaining trust extended its investment to 2018. This is a further demonstration of MMI's commitment to achieving transformation through the distribution of wealth to previously disadvantaged groups, enhancing their financial wellness and accelerating financial inclusion.

It is worth noting that the B-BBEE landscape has changed fundamentally with the introduction of the dti revised CoGP that came into effect on 1 May 2015. These codes introduce more stringent requirements on B-BBEE, with penalties included for non-performance on priority elements such as ownership, skills development, and enterprise and supplier development (including preferential procurement). We have revised our transformation strategy to address these changes and are confident that its successful implementation will address the impact of a more stringent regulatory environment. MMI is an active participant in the realignment process of the FSC, with the dti revised CoGP before 31 October 2015, failing which the financial services industry will be evaluated according to the dti revised CoGP.

NUMBER OF EMPLOYEES

	30 June 2015	30 June 2014
Indoor staff	10 438	9 877
Momentum Retail	1 841	1 711
Metropolitan Retail	1 052	1 174
Momentum Employee Benefits ¹	1 668	1 650
International ²	1 010	1 037
Momentum Investments	651	667
Metropolitan Health ³	2 902	2 553
Shareholder Capital		
Balance Sheet Management	78	68
Group services ⁴	925	781
Short-term insurance	311	236
Field staff	6 801	6 815
Momentum Retail	1 327	1 041
Metropolitan Retail	3 840	4 424
International ²	1 634	1 350
Total	17 239	16 692

¹ Momentum Employee Benefits in the current year includes 220 (30.06.2014: 218) employees relating to Guardrisk (now including Momentum Ability).

² International in the current year includes 87 employees relating to Cannon indoor staff and 201 employees relating to Cannon field staff.

³ Metropolitan Health in the current year includes 467 employees relating to CareCross.

⁴ Group services in the current year includes 83 employees transferred from operating divisions.

UNION MEMBERSHIP

All employee relations issues are dealt with by the group manager: risk, governance and labour relations.

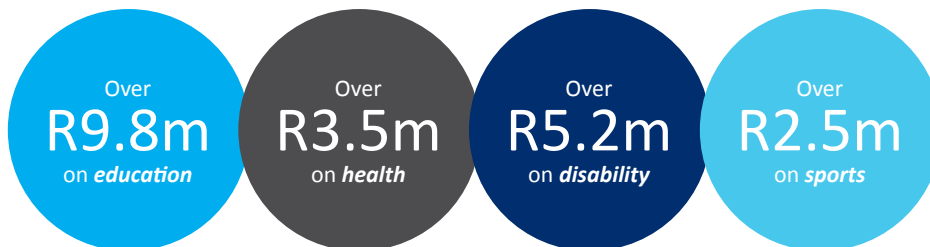
All MMI employees have the right to freedom of association to become or not become union members. As at 30 June 2015, union membership at MMI was less than 7%, with various unions represented. No industrial action took place in the year under review where MMI incurred any financial expense related to this type of action.

THE ROLE OF CORPORATE SOCIAL INVESTMENT (CSI)

MMI has established the MMI Foundation to provide strategic oversight and governance, as well as play an advisory role for all CSI initiatives. Metropolitan, Momentum and Guardrisk ensure the implementation of their respective CSI strategies and distribute funds allocated to each towards addressing the various social challenges of our country. The Foundation's mission is to create a society where strong leadership and collaboration help bring about sustained behavioural changes and development in the fields of health, disability, education and sports development.

MMI's CSI programmes are aimed at creating meaningful and lasting benefits for the communities in which we operate by empowering and assisting them to build better lives for themselves and their families.

MMI's targeted spend on socio-economic development, through the Foundation, is 0.6% of net profit after tax (NPAT). A total of R21.5 million was spent on qualifying initiatives. The weighted contributions equated to 0.78% of the NPAT for the calendar year 2014. In the last calendar year, the Foundation invested in the following four focus areas:



In addition to the four focus areas the Foundation also supports consumer education that focuses on financial literacy that aims to assist families in budgeting and managing their money better. MMI spent over R7.7 million on consumer education in the last calendar year.

MMI FOUNDATION PROJECT OVERVIEW

The following projects are being overseen by the Foundation:

- 1 Live the Future**
This project is aimed at mobilising communities to develop partnerships to tackle the HIV/AIDS pandemic.
- 2 Actuaries on the move**
Launched in 2002 in Soweto, this is a joint venture with the Actuarial Society of South Africa (ASSA). The initiative helps to equip talented learners from communities with poor educational resources with the skills and knowledge they need to succeed at university.
- 3 South African Medical Research Council Partnership**
This partnership with the SAMRC's HIV Prevention Unit takes a holistic approach to HIV/AIDS prevention in particularly in peri-urban populations.
- 4 Eastern Cape HIV Rural Prevention Project**
Launched in 2010, its goal was to develop a holistic model for HIV/AIDS prevention that could subsequently be rolled out in rural South Africa, which is home to close to 50% of the population. Over the past five years, the initiative has seen a number of key stakeholders collaborate to make the rollout a reality.
- 5 UJ Metropolitan Academy**
Based in Johannesburg and in partnership with the University of Johannesburg (UJ), the academy focuses on maths and science, offering learners from disadvantaged backgrounds an opportunity to prosper and excel in these subjects.

Because all MMI Holdings' product and service offerings are provided through our client-facing brands, some of their CSI initiatives – such as those of *Metropolitan*, *Momentum* and *Guardrisk* fall within the scope of the MMI Foundation. Other client-facing brands such as Eris Properties also conduct their own CSI initiatives.

For more detail on these initiatives, please see the MMI Foundation website www.mmifoundation.org.za.

CONSUMER EDUCATION

MMI has a range of promotional activities aimed at enhancing the financial literacy of our customers, thereby supporting them in making more informed and effective decisions that concern their financial welfare. In addition to the Foundation's four CSI focus areas, we also support consumer education by assisting consumers in various communities to make better-informed transactional decisions. Our approach includes

face-to-face workshops with NGO partners and media-based awareness programmes. *Making Cents with the Sitholes*, a financial edutainment series, was aired on eTV with an average viewership of 760 000 across a target market of LSMs 1-8. We have also made a series of radio shows, *Motheo Financial Dialogues* in partnership with community radio stations and developed a board game *Making Money Matter* to teach high school learners the basics of financial literacy.



SPONSORSHIPS

Metropolitan and Momentum have various sponsorships to enhance the brand, and support the group's focus on creating prosperity and ensuring financial wellness.

METROPOLITAN DEVELOPMENT SOCCER SPONSORSHIP

Metropolitan has been supporting development soccer for over 25 years aimed at community development and engaging with the people who do business with us. We currently sponsor the Metropolitan U19 Premier Cup (MPC). The MPC tournament, as it is known among its ardent followers, is held in Cape Town and attracts talented youngsters. Scouts also attend the tournament in the hope of finding young talent for various local and international teams.

CRICKET SOUTH AFRICA (CSA)

Momentum is the official single-title sponsor of one-day cricket under CSA jurisdiction. The sponsorship includes an element of ongoing development at provincial and grassroots level through supporting national club championships and bursaries to talented high school cricketers.

CLASH OF THE CHOIRS

This sponsorship presents us with an opportunity to build the Metropolitan brand in a way that resonates with our communities. 'Clash of the Choirs' will ensure a positive association with the Metropolitan brand. At the end of the series, Metropolitan will sponsor an amount, which will be donated to a community centre or charity organisation selected by the winning choir master. This underlines our commitment to supporting and uplifting communities through our sponsorships.

MOMENTUM 94.7 CYCLE CHALLENGE

The race encourages all cyclists to ride for a purpose and to make a difference by attaching a social responsibility goal or component to their cycling experience

MOMENTUM UNISA HOUSEHOLD FINANCIAL WELLNESS INDEX AND THE MOMENTUM HOUSEHOLD NET WEALTH REPORT

Researched and presented in collaboration with Unisa, this information provides financial service professionals and consumers with a meaningful overview to better understand and interpret the current state of financial wellness of South African households. It also provides policymakers with insights needed to improve the financial wellness of households.

MOMENTUM AND PICK N PAY – A UNIQUE PARTNERSHIP

Momentum is now partnering with retailer Pick n Pay on several of its sponsorship initiatives including The Cape Argus Pick n Pay Momentum Cycle Tour, Knysna Oyster Festival, the Pick n Pay Women's Walk series and the Pick n Pay Marathon. The partnership affords Momentum the opportunity to share its brand vision of enhancing the financial wellness of South Africans with more than 430 000 participants across all events.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

MMI promotes acceptance and implementation of the United Nations' Principles for Responsible Investment (PRI) and the Code for Responsible Investing in South Africa (CRISA) principles. Momentum Outcome-based Solutions and Momentum Asset Management are signatories to the PRI. The companies collaborate with other industry bodies, interested parties, service providers and others on ESG, through engagement, discussion and various initiatives.

During the year, Momentum Outcome-based Solutions' segregated portfolio called the Atlantic Money Market Impact Fund was approved by the Global Impact Investing Network (GIIN) for the Impact Base platform and is now registered there. It also follows the Impact Reporting and Investment Standards (IRIS), which is a set of metrics that can be used to describe an organisation's social, environmental and financial performance.

ESG considerations form an integral part of Momentum Outcome-based Solutions and Momentum Asset Management's daily business processes in the following manner:

- These companies consider ESG when:
 - Making investment decisions by evaluating the ESG factors of the companies in which direct investments are made.
 - Selecting investment managers by assessing their ESG practices and policies and considering these where relevant in the investment decision-making process.
 - Investing in properties by focusing on energy efficiency, water demand management and by targeting green star ratings for refurbishments.
- Dedicated analysts are primarily responsible for ESG and quality standard policy development and monitoring.
- A record of voting decisions and a register of ESG engagements is maintained.

- Momentum Outcome-based Solutions has integrated ESG further into its investment manager due-diligence process through more engagement, having taken guidance from the PRI.
- Momentum Outcome-based Solutions offers a responsible investment portfolio, which is called the Momentum MoM SuperNation Portfolio. This investment portfolio is holistic, comprehensive, compliant with Regulation 28 of the Pensions Fund Act, 24 of 1956, and is structured to address responsible investment guidelines, while at the same time competing directly, from a risk-adjusted return perspective, with other traditional balanced portfolios. Multiple specialist investment managers are mandated to derive active investment returns from differentiated segments of the market. Various responsible investment themes are covered in the portfolio, including, but not limited to, infrastructure and development, developmental property and responsible investment equity exposure.
- Momentum Outcome-based Solutions believes in the integration of responsible investment within the investment portfolio offerings and this includes various responsible investment building blocks in the company's 'best ideas' Factor Series™ range of portfolios.
- The company's proxy voting policy is available on the Momentum Asset Management's website www.momentuminv.co.za. This proxy voting policy and guidelines are aligned with the Companies Act, PRI, King III, Global Reporting Initiative (GRI) and various global industry association codes.
- Over the years, Momentum Outcome-based Solutions has enhanced the integration of the principles and continues working on initiatives and ways to incorporate these principles in the various investment portfolio offerings, in client interactions and in the industry.

CARBON FOOTPRINT

MMI participates in the carbon disclosure project annually and our submission is publicly available on the CDP website at www.cdproject.net.

In an endeavour to enhance its own understanding of the risks related to climate change, Momentum Short-term Insurance is currently the main sponsor of the University of Pretoria Natural Hazard Centre for Africa. Through this sponsorship MMI Holdings intends to understand climate change better and more appropriately protect itself and its customers against adverse events due to climate change. It intends to achieve this by quantifying weather-related risks accordingly and developing unique offerings for the benefit of client safety and financial wellbeing.

The total of our carbon emissions for the period 1 July 2013 to 30 June 2014 was 79 260 metric tons, which equates to

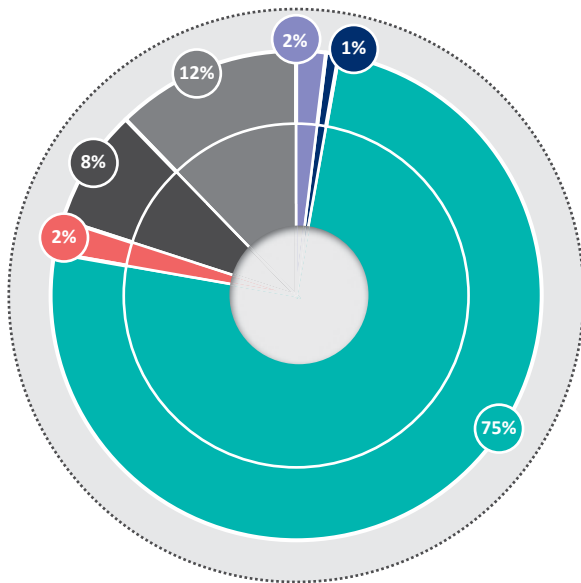
3.58 metric tons per employee. As can be seen from the chart below, the largest contributor to our carbon footprint is electricity, at 75%. In terms of reducing our carbon emissions, and to enable the government to achieve its target of reducing country emissions by 34% by 2020 and 42% by 2025, we will concentrate most of our efforts on reducing our electricity usage.

MMI has established the 2013/2014 financial year as the baseline year on which carbon emission targets have been set. The board has approved a 12% reduction in carbon emissions by 2020. As part of this process, the carbon emissions will be monitored to ensure that appropriate initiatives are implemented in order to meet the set target. The reduction of carbon emissions will be reported annually in the CDP.

For further details, please refer to the MMI website www.mmiholdings.com.



PERCENTAGE CONTRIBUTION TO MMI'S CARBON EMISSIONS



- Generator diesel
- Kyoto refrigerant gases (too small to measure)
- Owned cars
- Electricity
- Paper
- Water (too small to measure)
- Fuel and energy-related activities (not included in scope 1 or scope 2)
- Flights
- Car hire (too small to measure)

At MMI, we understand our client-centric journey requires the engagement of our stakeholders so that we can develop solutions that address the needs of various interest groups. We recognise that stakeholder management is not only good governance in line with King III principles, but essential in enabling us to serve our purpose of financial wellness and creating shared value with our customers and the community. As such, a collaborative approach needs to be adopted, where we work together with our key stakeholders in understanding issues that are material to them and developing plans to prioritise or resolve these issues.

Growing not only the number and types of relationships, but also the quality of the relationships remains a key objective to MMI. To assess the strengths of our relationships, including the effectiveness of the manner in which we engage and manage our stakeholders, we undertake an annual survey to measure this, namely the Stakeholder Relationship Index. The feedback from our stakeholders informs our stakeholder management approach, which is reviewed in consultation with segments, channels and group-wide functions.

In this financial year, our focus has been on activities where MMI, beyond its core business of providing financial solutions,

can play a further active role in the progress of the economies of countries in which we operate. Some of our activities include joining the World Economic Forum as Regional Associate in Africa, whereby the chief executive officer and MMI executives participated in the World Summit in Davos and Africa Summit in Cape Town. Our stakeholder management team launched a series of strategic and community development conversations that took place quarterly, targeting low-income and middle-income groups across different provinces in South Africa. The objectives of the sessions are to educate the participants on financial wellness, while simultaneously engaging community members on matters such as social issues, skills development and corporate social investment. In June, we sponsored the inaugural directors' event in Sandton – a conference where leaders from government, business and civil society convened to discuss solutions to achieve inclusive growth in South Africa, with the National Development Plan as the basis of the debates.

MMI will continue participating in and driving the appropriate transparent discussions and engagements with our stakeholder groups, in a bid to demonstrate our commitment to being a responsible and trustworthy financial wellness organisation.

We have had multiple engagements with our stakeholder groups as outlined:



Clients

• How we engaged

- Momentum Unisa Household Financial Wellness Index, an annual survey that measures the financial wellness of South Africans and our clients.
- Financial Education workshops by our client-facing brands to enhance financial literacy and trust in financial services companies.
- MMI Fair Practices Committee to evaluate alignment of client-related activities with Treating Customers Fairly principles.
- Sponsorship and marketing activities to position our value propositions.
- Annual brand and customer trackers to measure perception of our brand perception and customer experience.

• Some key issues raised

- Understanding financial services offerings by consumers
- Financial pressure and indebtedness impacting persistency and savings
- Value-for-money client solutions
- Saliency and competitiveness of client-facing brands
- Provision of financial services across different income segments



Employees

• How we engaged

- Regular feedback from the group chief executive officer on MMI's strategy, operating model and performance.
- Launch of training development programmes, in partnership with academia to grow middle and senior management talent.
- Annual Leadership Summit with senior managers and executives to inform strategy and enablers.
- Implementation of the new operating model and structure.
- Launch of MMIgnite to drive innovation and enhance creative thinking around client solutions.

• Some key issues raised

- MMI employee value proposition
- Culture and transformation
- MMI operating model
- Innovation
- Brand visibility
- Corporate social investment and employee volunteerism



Investors and analysts

• How we engaged

- Annual Investor Conference with analysts, investors and media to position MMI's strategy and achievements.
- Engagements with international investors both locally and in the US/UK.
- Quarterly, interim and year-end presentations of MMI results using all forms of media (JSE SENS, print, television, radio broadcasts).
- Positioning MMI as a Top 40 JSE-listed entity.

• Some key issues raised

- Group strategy and operating model
- Segment/business earnings mix
- Distribution strategy
- Africa penetration
- Dividend policy and capital management



Communities

• How we engaged

- MMI Foundation, funded through MMI profits – invest in communities in partnership with government and non-government organisations.
- Launched MMI CSI profile to communicate focus areas and achievements to the public.
- Assess funding applications focused on health, sports development, education and people with disabilities.
- Launched an employee volunteerism programme.
- Contributing member to the National Education Collaboration Trust, a partnership model aimed at supporting the NDP.

• Some key issues raised

- Enterprise development
- Funding sustainability
- Financial wellness alignment
- Education



Regulators and government

• How we engaged

- Engagement with regulators and government in matters such as the National Health Initiative pilot programmes and collaborating on achieving NDP outcomes.
- Collaboration with Department of Health on launching a mobile health clinic.
- Partnerships with government on corporate social investment programmes.
- Representative in various committees and industry associations that engage with legislators (eg Association for Savings and Investments South Africa, South African Insurance Association, Business Unity South Africa).
- Parliamentary committees to enable public policy participation.

• Some key issues raised

- Twin Peaks regulation
- Public-private partnerships
- Retirement Fund Reform
- Protection of Personal Information Act
- Solvency Assessment and Management
- Financial Services Laws General Amendment Act
- Financial Account Tax Compliance Act



Media

• How we engaged

- MMI's media profile has grown, with the company being profiled on multiple platforms outside of the results reporting cycle.
- Sponsored the *Financial Mail* Budget supplement, where MMI executives and chief executive officer provided opinion pieces regarding the NDP.
- Collaboration with *Sunday Times* on the directors' event, which generated PR.
- Regular engagements with media around executive changes, Africa strategy, etc.

• Some key issues raised

- MMI results
- Client-centric strategy
- Top 40 index
- World Economic Forum
- Africa strategy
- Mergers and acquisitions



Trade unions

• How we engaged

- Strategy meetings with organised labour to inform development of financial wellness propositions and influence public policy development.
- Sponsorship of Cosatu investment training programme for its affiliate trustees.
- Sponsorship of various conferences hosted by federations and unions (eg Nehawu, Denosa, Popcru).

• Some key issues raised

- Union recognition by MMI
- Transformation including employment equity
- Job creation and skills development
- Trustee training



Suppliers

• How we engaged

- Discussions around commitment to B-BBEE objective and support required to achieve the minimum threshold.
- Enterprise development funding opportunities for companies in our supply chain.
- Regular interaction to discuss service delivery as part of our procurement processes.

• Some key issues raised

- Prompt payment
- B-BBEE certification
- Directing spend to black women-owned business



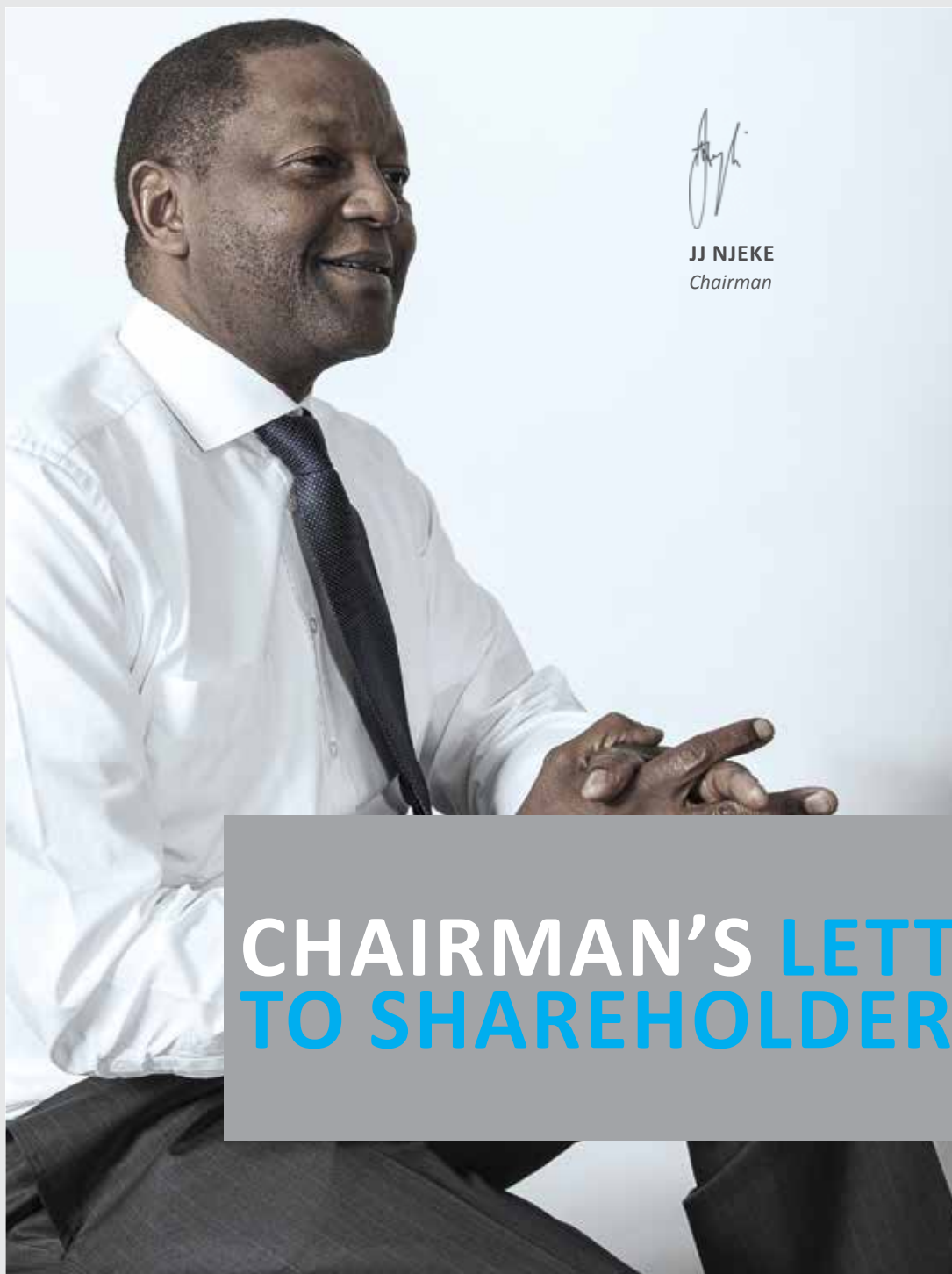
Intermediaries and brokers

• How we engaged

- Regular email communications
- Thought leadership events
- Product launches and updates
- Momentum Risk Summit
- In-house publications
- General manager, regional manager and marketing adviser interactions with intermediaries and brokers
- Representation on regulatory bodies such as the FPI and ASISA to influence new legislation
- In-house learning programmes

• Some key issues raised

- Retail distribution review (RDR)
- General regulatory and compliance matters
- Impact of slow economic growth
- Volatile investment markets
- Competitiveness of products
- Fit and proper status of representatives and key individuals
- Speed and quality of service
- Providing viable low-income solutions for clients



**CHAIRMAN'S LETTER
TO SHAREHOLDERS**

DEAR SHAREHOLDER

In my previous letter to you I expressed my enthusiasm about concluding the MMI merger and therefore being able to focus all our attention on MMI's future. During the past year, we further developed and implemented our client-centric strategy to a level that I believe will secure an exciting future for MMI. There is no doubt that the insurance industry of tomorrow will look meaningfully different to what we have today, but our management team and employees are up to the challenge and look forward to the exciting opportunities that we expect will emerge in the next few years.

MMI achieved excellent growth of 22% in the value of new business, and operating profit growth from established operations was 17%. After allowing for a significant increase in the investment in initiatives to advance MMI's strategy, core headline earnings grew by 6%. The additional investment in strategic initiatives was mainly in respect of our short-term insurance business, the middle-market segment focus, a wider and more effective distribution footprint, new solutions for regular client engagement and our India initiative.

Making a difference

MMI's purpose is to enhance the lifetime financial wellness of people, their communities and their businesses. This purpose is not only about making a difference in our clients' lives, but also the communities where they live and where we operate. Our corporate social investment (CSI) is aimed at creating meaningful and lasting benefits for community members. We specifically invest in CSI projects that focus on education, health, disability and sports development. Our group chief executive officer, Nicolaas Kruger and the CEO of Metropolitan Retail, Khanyi Nzukuma recently joined many other South African chief executive officers for the "702 Sun International CEO Sleepout" that raised funds for vulnerable children.

MMI's focus on financial wellness is not limited to our own clients. Working with Unisa, we measure the financial wellness of South African households on an annual basis and publish the results as the Momentum/Unisa South African household financial wellness index. This index improved in the past year.

MMI is committed to B-BBEE and our goal to enhance MMI's contribution in terms of the Financial Sector Charter. October 2014 marked the 10-year empowerment partnership between MMI and Kagiso Tiso Holdings (KTH). MMI and KTH share many values and our relationship has grown stronger over many years, successfully navigating the global financial crisis and major mergers on both sides.

The importance of making a difference in South Africa becomes even clearer, considering the current headwinds in our country. The macroeconomic and socio-political environment remained challenging over the past year. Internationally, economic growth performance continued to be mixed, but was generally pedestrian. Emerging Markets, which had contributed meaningfully to economic growth during the first decade of the millennium, are currently experiencing a slowdown. This has become more evident in the case of commodity exporters and those countries, like South Africa, with fiscal and external

funding vulnerabilities. Prolonged and generally challenging economic realities, combined with widening inequalities, have given rise to mounting socio and geopolitical risk and instability, with negative consequences for confidence and investment. South Africa, particularly with its difficult history has not escaped these challenges.

These macroeconomic and socio-political strains, ongoing regulatory reform in the insurance and savings sectors and ever more demanding consumers have made for an increasingly tough business environment for insurers. Despite these headwinds, I believe our country still offers many opportunities. Accordingly, MMI is making a considerable effort to find innovative ways to make financial wellness a reality for more people across society. We believe our efforts are aligned with the goals of government's National Development Plan, which we fully support.

MMI board

The Group Finance Director of MMI, Preston Speckmann, retired on 30 June 2015. Preston was an integral part of the MMI merger transaction and we have benefited from his guidance and insight on financial matters for 16 years. Our Group Executive for Strategic HR and Transformation, Ngao Motsei, resigned on 30 June 2015. Ngao made a valuable contribution to MMI through her introduction of a strong strategic approach to Human Resources. On behalf of the board of MMI I convey our gratitude to Preston and Ngao for the role they played in developing MMI's people and our business. Mary Vilakazi succeeded Preston on 1 July 2015 in the position of Group Finance Director, completing the succession planning implemented last year ahead of Preston's retirement. I wish Mary all the best in her new role. Sizwe Nxasana retired as a non-executive director on 30 September 2015. Sizwe's valued guidance as Chairman of our Remuneration Committee, as well as his remarkable insights into strategic matters will be sorely missed. I would like to thank Sizwe for the significant contribution he made to MMI and wish him all the best in this new phase of his life.

MMI updated its corporate governance framework during the year. Key objectives of the framework include continuous improvement in how MMI meets governance responsibilities and adherence to legislative requirements. It provides a summary of the principles, methodologies and procedures used in MMI to support effective governance and is aligned with MMI's core values, including integrity and excellence.

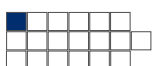
Prospects

We expect the operating environment to remain tough in the short to medium term. I am confident that MMI's client-centric strategy will be implemented successfully to create value for all stakeholders over time.

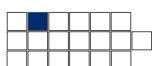
Thanks

In closing, I would like to thank all MMI's stakeholders. To shareholders, thank you for trusting us to create value. To the MMI board, executive management and employees, thank you for your guidance and continued commitment to achieving MMI's vision to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness.

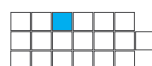
BOARD OF DIRECTORS



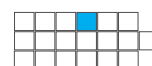
JJ Njeke (56)
Chairman
Non-executive, independent
BCom, BCompt (Hons), CA(SA), HDip Tax
 Appointed to board: 2010



Johan Burger (56)
Deputy chairman
Non-executive, independent
BCom (Hons), CA(SA)
 Appointed to board: 2010



Nicolaas Kruger (47)
Group chief executive officer
Executive
BCom, FFA, FASSA, AMP (Oxford)
 Appointed to board: 2010



Ngao Motsei (50)
Group executive: strategic human resources and transformation
Executive
BSocSc (Hons) (UCT), MRP (Cornell University), IQSD (Gestalt Institute of Cleveland), BSHR (INSEAD)
 Appointed to board: 2012
 Resigned: 30 June 2015



Leon Crouse (62)
Non-executive, non-independent
BCom (Acc), certificate in the theory of accounting, CA(SA)
 Appointed to board: 2012



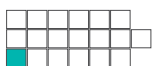
Fatima Jakoet (54)
Non-executive, independent
BSc, CTA, CA(SA)
 Appointed to board: 2010



Niel Krige (66)
Non-executive, independent
MCom, FIA (London), AMP (Harvard)
 Appointed to board: 2011



Jabu Moleketi (58)
Non-executive, independent
AMP (Harvard), MSc in financial economics (University of London), post-graduate diploma in economic principles (University of London)
 Appointed to board: 2010



Sizwe Nxasana (57)*
Non-executive, independent
BCom, BCompt (Hons), CA(SA)
 Appointed to board: 2010



Frans Truter (59)
Non-executive, independent
BCom (Hons), CA(SA), AMP (Oxford)
 Appointed to board: 2010



Ben van der Ross (68)
Non-executive, independent
Dip Law (UCT)
 Appointed to board: 2010



Johan van Reenen (60)
Non-executive, independent
BSc (Hons), MBA
 Appointed to board: 2010

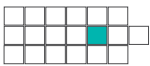
* Resignation effective 30 September 2015



Preston Speckmann (58)
Group finance director
Executive
BCompt (Hons), CA(SA)
 Appointed to board: 2010
 Retired: 30 June 2015



Mary Vilakazi (37)
Group finance director
Executive
BCom (Hons), HDip Auditing, CA(SA)
 Appointed to board: 1 July 2015



Syd Muller (66)
Non-executive, independent
BCom (Hons), CA(SA), MBA, AMP (Harvard)
 Appointed to board: 2010



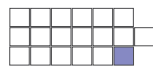
Vuyisa Nkonyeni (45)
Non-executive, non-independent
BSc (Hons), CA(SA)
 Appointed to board: 2011



Khehla Shubane (59)
Non-executive, independent
BA (Hons), MBA
 Appointed to board: 2010



Louis von Zeuner (54)
Non-executive, independent
BEcon
 Appointed to board: 2014



Maliga Chetty (45)
Company secretary
BA, BProc, LLM, CIS
 Appointed: 2013



For abbreviated curricula vitae of directors, please see the MMI website www.mmiholdings.com.

All directors appointed on the MMI Holdings board, at the time of the merger, were taken to be appointed to the board with effect from 1 December 2010, being the effective date of the merger. It should be noted that MMI Holdings Ltd (previously Metropolitan Holdings Ltd) was incorporated on 21 December 2000.

Directors' ages as at 30 June 2015.



During the past year, MMI implemented the new operating model required to support our client-centric strategy.

A NEW INDUSTRY

Last year we highlighted a number of local and global trends that we believed would have a significant impact on the insurance industry of the future. These trends have become more pronounced during the past year. Regulatory changes, consumer advocacy and technology advances are increasingly joining forces to create a significantly more informed and empowered consumer. The velocity of change continues to increase in a world where technology, big data and the fact that everything is connected have made the creation of entirely new business models a reality. Global surveys show that the CEOs of insurance companies expect continued blurring of industry boundaries, disruption of the insurance industry, the introduction of major new types of competitors, as well as the creation of interconnected ecosystems.

In the new insurance world, insurers will have to significantly improve their understanding of clients, introduce new client engagement models, leverage data and technology, and build ecosystems to deal with the speed of change. We believe our client-centric strategy is the right strategy to capitalise on the opportunities a new insurance environment would offer.

THE RIGHT STRATEGY

Given the current strategic context, MMI's strategy is fundamentally client-centric, vested in the concept of

financial wellness. Our vision is to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness. In order to realise this strategy, we have defined three strategic focus areas – growth, client centricity and excellence. All strategic activities throughout the entire MMI organisation are aligned with these three focus areas.

STRATEGY IMPLEMENTATION

Operating model

During the past year MMI implemented the new operating model required to support our client-centric strategy. Our four Client Segments are now fully functional and we have established dedicated Centres of Excellence within the Products and Solutions area. The Centres of Excellence deliver the product solutions required by the client value propositions of our Client Segments and comprise centres for Investments and Savings, Life insurance, Short-term insurance, Health solutions, Legacy solutions and Payments solutions. Because of the importance of proactive engagement with clients, we have created a Client Engagement Solutions area in the operating model. This new area uses new technologies, business ecosystems, financial wellness tools and its understanding of human behaviour to improve our clients' experience when engaging with MMI.

GROUP CHIEF EXECUTIVE OFFICER'S OVERVIEW

RETURN on EMBEDDED
VALUE of

10%

Profits from OPERATING
DIVISIONS increased by

17% to
R3.5 billion

New business PVP
increased by

21% to
R50 billion

Strategic focus areas

We have made good progress to achieve the strategic objectives in respect of all three our strategic focus areas.



Growth

- *Growth through geographical diversification:* In India, we have signed an agreement with Aditya Birla Group to establish a Health Insurance Joint Venture. Aditya Birla provides a strong brand, distribution and local know-how for our India focus. We are making good progress to operationalise the business in India and are excited about the long-term contribution the Joint Venture can make to our objective to grow through geographical diversification. Africa remains an important part of MMI's growth plans outside South Africa and we have a presence in 12 African countries outside of South Africa. During the year we have streamlined our Africa portfolio into three regional hubs that offer five different product lines. MMI's London office provides a wealth management platform to its clients and we also have a presence in Hong Kong and Indonesia.
- *Increase value of existing clients:* The Legacy solutions Centre of Excellence focused on the optimisation of our legacy book to not only increase the value of existing clients, but also to provide improved value to clients. Clients who are financially well have a more comprehensive range of financial products with us and are therefore more valuable to MMI. In support of higher cross-product holdings, the full suite of short-term insurance capabilities is now available in South Africa and the rest of Africa.
- *Increase client base:* Significant work has been done to improve distribution channel productivity, and the initial results are encouraging in respect of increasing our client base. During the year we created a dedicated Mergers and Acquisitions team to identify potential targets with complementary client bases. Our middle-market segment diversification initiative was launched and has attracted its first clients.



Client centricity

- *Increase financial wellness:* In addition to doubling the number of financial wellness users in our upper income segment, we have developed financial wellness value propositions for our other market segments.
- *Improve client experience and relationships:* The creation of the dedicated Client Engagement Solutions area has given impetus and focus to this strategic objective. The new area focuses on wellness solutions, rewards, partner management and client data analytics.



Excellence

MMI's objective to improve efficiency supports our Excellence strategic focus area. We implemented our new operating model and identified related optimisation opportunities across the group.

Innovation

Innovation is an important enabler for our strategy in relation to all three strategic focus areas, especially given the fast-changing environment in which we operate. We have adopted a dual approach to advancing innovation throughout MMI, ensuring both sustaining and disruptive innovation. Our sustaining innovation programme is called MMIgnite and delivered positive results. This social-based collaborative programme is open to all MMI employees and has grown to include more than 3 500 users. A number of MMIgnite ideas have already been implemented. We have also launched a disruptive innovation initiative with a much longer time horizon.

FINANCIAL PERFORMANCE

Our return on embedded value was 10% over the past year, with an excellent increase of 22% in the value of new business. Profits from operating divisions grew strongly by 17% and core headline earnings increased by 6% to R3.8 billion. After adjusting for a significant increase in the investment in new initiatives, core headline earnings growth was 13%. New business sales (on a present value of premiums basis) increased by 21% to R50 billion. Five of the six operating divisions increased their profits, led by Momentum Employee Benefits' increase of 28%. The ordinary dividend per share has increased to 155 cents, a growth of 9%.

During the year, Fitch Ratings affirmed MMI's credit rating and kept our outlook at stable.

TRANSFORMATION

We are proud to report that MMI has maintained a level 2 contributor status over the last three years. Transformation continues to be an integral part of MMI's vision, as well as a strategic imperative in achieving our objective of enhancing financial wellness for all. We understand and are prepared for the current challenges brought about by changes in legislation. Our Group Transformation strategy is aligned with the Department of Trade and Industry (dti) amended Codes of Good Practice.

We remain committed to creating meaningful and sustainable transformation in the South African economy.

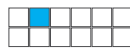
THANKS

I would like to thank the MMI board, management team and employees for their commitment and significant contributions during the past year. In particular, I would like to thank our chairman, JJ Njeke, for his valuable strategic guidance and ongoing support. We believe MMI's client-centric strategy is appropriate to build an exciting future and continue to rely on our management team and employees to realise that future by living our purpose to enhance the lifetime financial wellness of people, their communities and their businesses. I would also like to thank our shareholders for their support and especially all MMI's clients for partnering with us to enhance their financial wellness.

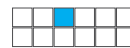
EXECUTIVE COMMITTEE



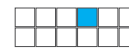
Nicolaas Kruger (47)
Group chief executive officer
BCom, FFA, FASSA, AMP (Oxford)
 Financial services industry experience:
 24 years



Preston Speckmann (58)
Group finance director
BCompt (Hons), CA(SA)
 Financial services industry experience:
 23 years
 Retired 30 June 2015



Mark van der Watt (47)
Chief executive: Momentum Retail
BSc (Hons), FIA, FASSA
 Financial services industry experience:
 20 years



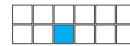
Khanyi Nzukuma (44)
Chief executive: Metropolitan Retail
BA, MBA, PhD
 Financial services industry experience:
 17 years



Etienne de Waal (47)
Chief executive: Products and Solutions
BCom (Hons), FFA, FASSA
 Financial services industry experience:
 24 years



Danie Botes (51)
Chief operating officer
BCompt (Hons)
 Financial services industry experience:
 30 years



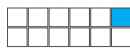
Mary Vilakazi (37)
Group finance director
BCom (Hons), HDip Auditing, CA(SA)
 Financial Services industry experience:
 15 years
 Appointed as finance director on
 1 July 2015



Vuyo Lee (37)
**Group executive: Brand, Corporate
 Affairs and Transformation**
BCom (Hons), MAP, MBA
 Financial services industry experience:
 11 years



Herman Schoeman (52)
Chief executive: Corporate and Public Sector
BCom, MBA
 Financial services industry experience: 25 years



Blum Khan (58)
Chief executive: International
CA(SA)
 Financial services industry experience: 20 years



Ngao Motsei (50)
Group executive: strategic human resources and transformation
BSocSc (Hons) (UCT), MRP (Cornell University), IOSD (Gestalt Institute of Cleveland), BSHR (INSEAD)
 Human resources experience: 14 years
 Resigned 30 June 2015



Jan Lubbe (44)
Chief risk officer
CA(SA), MBA, MCom
 Financial services industry experience: 21 years



MMI'S established businesses were resilient and performed well in a market where consumer confidence and spending across the board was negatively impacted by low economic growth and difficult economic conditions.

INTRODUCTION

This review provides a high-level overview of the group results. Additional financial disclosure can be found in the group financial statements from page 72 onwards.



GROUP SCORECARD

MMI assesses its operational performance against a set of key performance indicators that are approved and annually

reviewed by the group's Remuneration Committee. The set of indicators include both short-term and longer-term objectives.

Short-term deliverables are measured over a period of 12 months and are reviewed on an annual basis. For the financial year ended 30 June 2015, the following set of short-term deliverables applied to the group as a whole:

PERFORMANCE SCORECARD 2015

	Weight	F2015 target	Actual	Achieved
Return on embedded value*	20%	GDP plus 3%	10.6%	↔
Value of new business	20%	R880 million	R954 million	↑↑↑
Core headline earnings	25%	GDP plus 3%	6%	↓↓
Transformation	15%	FSC score of 75	91	↑↑↑
Strategic initiatives	20%	Self-assessment		↑↑

* For short-term incentive scorecard purposes, investment variances are excluded from the return on embedded value.

The above relates to group-wide targets and deliverables. In addition, specific targets are set for individual business units. This report discusses only the financial metrics of the performance scorecard.

The group delivered excellent new business results with an increase of 22% in the value of new business. The return on embedded value (ROEV) of 10.6% (excluding investment variances) is ahead of the group's targeted growth of nominal GDP + 3% (9.2% for the year ended 30 June 2015). Core headline earnings growth for the year to 30 June 2015 amounted to 6%. The main reasons for the lower than expected core headline earnings growth include lower investment market returns well below the long-term expectation, and a significant investment in strategic initiatives, including the adverse impact of Momentum Short-term Insurance claims experience.

GROUP FINANCE DIRECTOR'S REPORT

VALUE of NEW BUSINESS
increased by
22% to
R954 million

CORE HEADLINE EARNINGS
increased by
6% to
R3.8 billion

TOTAL DIVIDEND
increased by
9% to
155 cents per share

The group's performance in terms of each of the key financial metrics in the scorecard, is discussed below:

RETURN ON EMBEDDED VALUE ("ROEV")

Embedded value summary

	12 months to June 2015 Rm	Annualised ROEV %	12 months to June 2014 Rm	Annualised ROEV %
Embedded value at start of period	39 675		35 148	
Embedded value earnings from operations	4 317	10.9%	4 103	11.7%
Value of new covered business	954	2.4%	779	2.2%
Expected return – unwinding of risk discount rate	2 758	7.0%	2 289	6.5%
Operating experience variances	701	1.8%	544	1.5%
Development expenses	(79)	(0.2%)	–	–
Operating assumption changes (including STC allowances)	(17)	0.0%	491	1.4%
Embedded value attributable to investment markets	309	0.8%	2 018	5.8%
Investment return on adjusted net worth	664	1.7%	1 063	3.0%
Investment variances	(406)	(1.0%)	1 278	3.6%
Economic assumption changes and exchange rate movements	51	0.1%	(323)	(0.9%)
Embedded value profit from non-covered business	(832)	(2.1%)	543	1.5%
Change in strategic subsidiary valuations	(557)	(1.4%)	718	2.0%
Increase in MMI and International holding company expenses	(275)	(0.7%)	(175)	(0.5%)
Return on embedded value	3 794	9.6%	6 664	19.0%
Dividends and other capital movements	(3 139)		(2 137)	
Embedded value at end of period	40 330		39 675	

The diluted embedded value of the MMI group amounts to R40 330 million (R25.14 per share) as at 30 June 2015. When the payment of dividends and other capital movements (R3 139 million) are added back, then the overall return on embedded value (ROEV) amounts to R3 794 million, an annualised return of 9.6% on the opening embedded value. This is marginally above the targeted return on embedded value of nominal GDP plus 3%, being 9.2% for the year to 30 June 2015.

Significant items impacting on ROEV include excellent value of new business growth and good overall risk experience, which was offset by the negative impacts of poor investment market conditions during the current financial year and write-downs on the directors' valuations of non-covered businesses. The main reason for the write-down of the directors' valuations of non-covered businesses related to the recent loss of certain medical scheme contracts in the Health business.

VALUE OF NEW BUSINESS

Value of new business summary

	APE			PVP			PVP Margin		VNB		
	30 June 2015	Restated 30 June 2014	Change	30 June 2015	Restated 30 June 2014	Change	30 June 2015	Restated 30 June 2014	30 June 2015	30 June 2014	Change
	Rm	Rm	%	Rm	Rm	%	%	%	Rm	Rm	%
Momentum Retail	2 783	2 515	10.7%	22 924	20 434	12.2%	1.1%	1.2%	246	240	2.5%
Metropolitan Retail	1 187	1 191	(0.3%)	5 117	4 948	3.4%	3.6%	4.8%	186	236	(21.2%)
Momentum Employee Benefits	2 243	1 568	43.0%	20 191	14 491	39.3%	2.3%	1.8%	456	254	79.5%
International	430	348	23.6%	2 164	1 866	16.0%	3.0%	2.6%	66	49	34.7%
Total	6 643	5 622	18.2%	50 396	41 739	20.7%	1.9%	1.9%	954	779	22.5%

APE: Annualised new recurring premiums plus 10% of single premiums.

PVP: Present value of future premiums in respect of new business, using the risk discount rate and net of reinsurance.

VNB: Discounted present value of expected future after-tax profits from new business at point of sale, less cost of capital at risk.

The growth in the overall value of new business to R954 million in the current financial year from R779 in the prior year is very pleasing. MMI continues to reap the benefits of scale and diversification in the portfolio composition, following from the merger and acquisitions made in prior years.

The **Momentum Retail** PVP margin of 1.1% at 30 June 2015 is slightly lower than the margin at June 2014. The margin was impacted negatively by a reduction in investment business volumes. There was also a change in mix, away from more profitable guaranteed endowment sales, towards lower margin Wealth lump sum inflows. The positive impact of good recurring risk business has been dampened by the reduction in recurring savings business.

The **Metropolitan Retail** PVP margin of 3.6% at 30 June 2015 represents a significant reduction from the margin of 4.8% at June 2014. The reduction is mainly due to the impact of the

significant restructuring in Metropolitan Retail to improve the productivity of the agency force. The positive impact of good expense management was offset by lower than expected sales volumes, partly due to the introduction of the new financial adviser remuneration model. The change in mix away from stop order or salary deduction business, which has good persistency, to debit order business also impacted the margin.

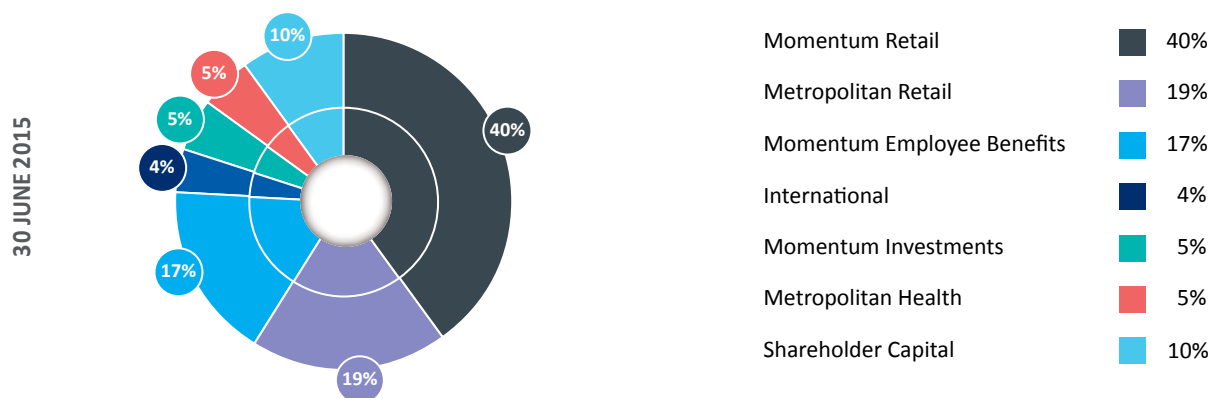
The **Momentum Employee Benefits** PVP margin increased significantly from 1.8% during the prior year to 2.3% at 30 June 2015. The main contributors to this excellent performance are strong sales of large corporate annuity business, good expense management, scale benefits and the positive impact of a large corporate deal written in the last quarter.

The **International** PVP margin of 3.0% at 30 June 2015 is an improvement from 2.6% at 30 June 2014. The VNB was positively impacted by improved sales in Namibia.

CONTRIBUTION TO DILUTED CORE HEADLINE EARNINGS

	June 2015 Rm	June 2014 Rm	Change
Momentum Retail	1 531	1 372	12%
Metropolitan Retail	738	587	26%
Momentum Employee Benefits	660	516	28%
International	152	122	25%
Momentum Investments	181	197	(8%)
Metropolitan Health	209	171	22%
Operating divisions	3 471	2 965	17%
Shareholder Capital	365	656	(44%)
Total diluted core headline earnings	3 836	3 621	6%

CONTRIBUTION TO OPERATING PROFIT



The core headline earnings for the operating divisions showed strong growth of 17%, with excellent growth from Metropolitan Retail, Momentum Employee Benefits and Metropolitan Health. Overall core headline earnings growth was more subdued at 6%, largely due to a significant decline in Shareholder Capital earnings.

Momentum Retail's core headline earnings increased by 12% due to the relatively good revenue growth achieved during the current financial year. The increase in revenue from the prior year is largely attributed to growth in the Myriad risk product in-force flows, as well as good investment revenue growth stemming from prior financial year market growth. A significant increase in experience profits in the current year also contributed positively to the year-on-year variance. Current year revenue growth was however partly offset by significant investments in strategic initiatives such as Middle Market, Momentum Consult and the new stockbroking business which includes the recent acquisition of Momentum SP Securities (previously Imara SP Reid).

Metropolitan Retail's core headline earnings increased by 26%, largely due to the higher release of margins on the back of higher asset values in prior years, the one-off impact of phasing in the new sales remuneration model and good expense management. Expenses were very well controlled during the current year, and were below that of the prior year.

The 28% growth in **Momentum Employee Benefits'** core headline earnings can partly be attributed to the inclusion of Guardrisk, which was only included for four months in the prior year. Excluding the impact of Guardrisk, the core headline earnings increased 13% relative to the prior year comparative. The increase from the prior year is largely attributed to the turnaround in the underwriting result of the Income Disability business.

International's increase in core headline earnings of 25% is largely due to an increase in earnings in Namibia and the rest of the Southern region, with good contributions from both the Life and Health businesses in this region. The results from the East African region also improved from the prior year largely due to the inclusion of Cannon (Kenya) results.

Momentum Investment's core headline earnings decline of 8% was adversely impacted by a significant reduction in performance fees and the loss of revenue related to the white labelled collective investment schemes that were transferred out of MMI in July 2014. In addition, net inflows were below expectations while expenses were well controlled.

Metropolitan Health's core headline earnings improved by 22% from the prior year comparative and is largely attributed to the acquisition of CareCross in the current year as well as the reduction of expense levels due to the efficiency initiatives embarked on by management during the second half of 2014. The implementation of various cost saving initiatives throughout the business has had a positive impact on expense levels, which declined marginally relative to the prior year level. Subsequent to the financial year-end, Metropolitan Health, which was party to a competitive tender process regarding the administration contracts of two existing clients, was informed that these two clients had decided not to renew these contracts. The contracts will terminate effective 1 January 2016. We are in the process of assessing the full financial impact of the loss of these contracts on the health business.

The **Shareholder Capital** core headline earnings reduced significantly due to a number of factors. Shareholder capital comprises the following areas:

- Investment income on shareholder assets has shown a decline due to a reduction in the average shareholder asset base. Capital transactions, which reduced the shareholder asset base, include the payment of the R778 million special dividend in October 2014 and the funding of acquisitions during the past year.
- Balance Sheet Management (BSM) results have benefited from enhanced returns on shareholder assets above the benchmark return, as a result of the investment in BEE preference share funding, a new Credit Fund joint venture and other optimisation activities.
- Results of strategic subsidiaries these declined mainly due to the adverse impact of the Momentum Short-term Insurance core headline loss of R169 million in the current year (prior year: loss of R76 million).

CAPITAL MANAGEMENT

South African and global investment markets were under pressure during the reporting period, while business confidence in South Africa also saw a decrease. The economic condition continues to remain volatile and unpredictable. Despite these difficult trading conditions, the group remains satisfactorily capitalised as shown in the current statutory capital adequacy requirement (CAR) covers of the various life businesses, and also evidenced by the fact that the MMI Holdings life entities' solvency requirements are covered 2.7 times, with discretionary margins of R9.8 billion (net of tax).

MMI had a capital buffer of R4.3 billion at 30 June 2015, based on the current economic capital requirements (before SAM). We have also done extensive work to model the impact of the implementation of SAM. We are comfortable that MMI has sufficient capital to comply with SAM, but our capital buffer (after SAM) will be significantly smaller.

On 1 December 2014, MMI Group Ltd (MMIGL) issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes were issued at a floating rate with a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 230 basis points over the three-month JIBAR interest rate. On 15 December 2014, the R500 million subordinated notes issued by Metropolitan Life Ltd in 2006 were redeemed.

Subsequent to the financial year-end, MMIGL successfully completed a further debt capital-raising exercise. MMI Group Ltd subordinated-debt issue received total bids equal to R2 212 million, resulting in a subscription of almost 1.8 times. The allocation of R1 250 million of debt, is as follows:

- R980 million of seven-year fixed rate notes at 273 basis points above risk-free rate;
- R270 million of 10-year fixed rate notes at 305 basis points above risk-free rate.

We participated in the FSB's SAM light parallel run which successfully concluded at the end of 2014. As part of the comprehensive parallel run, which started in January 2015, MMI has successfully submitted all regulatory reports required, implemented the risk and governance requirements as set out in the FSB Board Notice that became effective 1 April 2015, and we are on track with our developments related to the Mock ORSA that will be submitted to the FSB during the second half of the 2015 calendar.

Dividend

MMI's dividend policy is to provide shareholders with relatively stable dividend growth, while allowing the dividend cover to fluctuate. The group's ability to generate strong cash levels has enabled it to continue with its attractive dividend yield.

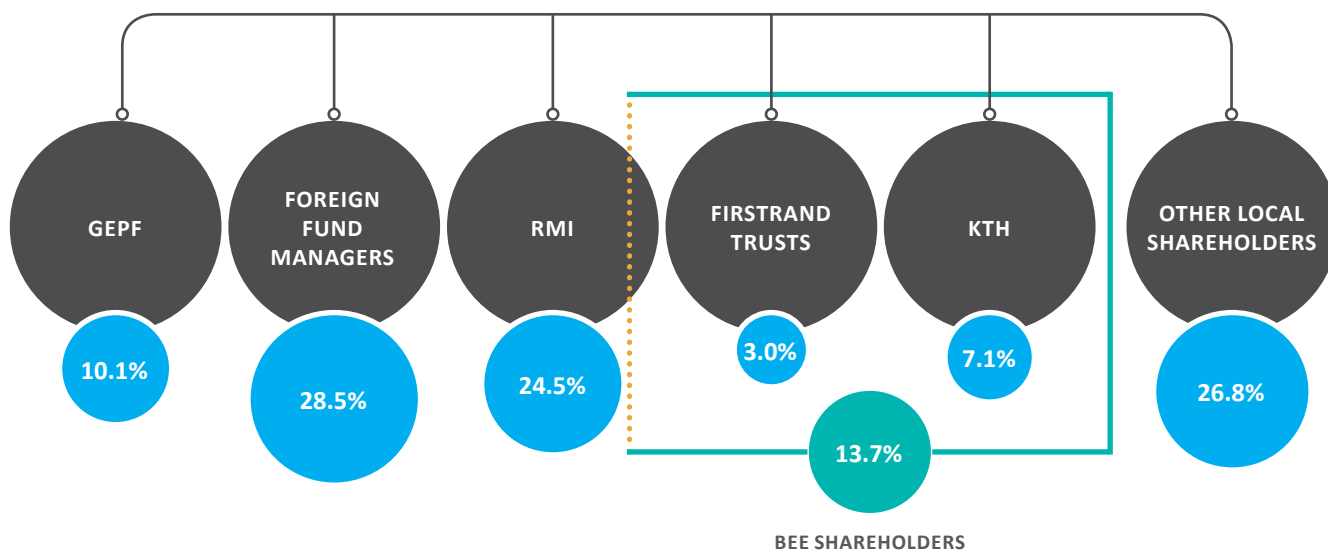
The dividend history table below reflects MMI's commitment to providing shareholders with steady dividend growth. The operational performance of the group over the past 12 months enabled the board to declare a 9% increase in the total dividend to 155 cents per share.

Dividends	2011	2012	2013	2014	2015
Ordinary dividend paid cents per share (cps)	105	113	127	142	155
Growth in dividend per share (%)	–	8	12	12	9
Dividend cover (times – basic core headline earnings)	1.6	1.7	1.6	1.6	1.6
Dividend yield (%)	6.2	6.3	5.7	5.4	5.1
Special dividend paid (cps)	21	65		50	

CREATING SHAREHOLDER VALUE

On an embedded value basis, MMI created shareholder value amounting to R3.8 billion during the 2015 financial year. This represents a 9.6% return on embedded value in an environment of poor market returns (the JSE All Share index produced returns of 2% over the period), highlighting MMI's resilience in terms of diversified earnings streams. The embedded value earnings were characterised by excellent risk underwriting results across all divisions. The various group-wide initiatives are starting to contribute to value, most notably Guardrisk, where the group is increasing the amount of risk-taking and gaining market share in the corporate environment.

SHAREHOLDER STRUCTURE



STRATEGIC GROWTH INITIATIVES

In its integrated report for the period ended 30 June 2014, the group announced that R1.9 billion had been earmarked for investments or acquisitions in businesses, which will be complementary to existing ones and its longer-term strategy.

The table below indicates the progress made during the period under review.

Investment made	Size Rm	Equity stake	Type of business
Cannon	308	71%	Kenyan general insurer
CareCross	300	100%	Healthcare
Momentum SP Securities (previously Imara SP Reid)	120	100%	Stockbroking firm

In addition to the above, the group invested an additional R548 million (prior year: R246 million) in organic growth initiatives, including Momentum Short-term Insurance, the Momentum middle-market initiative, client engagement solutions, distribution initiatives and international expansion.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The full results have been prepared in accordance with International Financial Reporting Standards (IFRS); relevant SAICA guides and Pronouncements; JSE Listings Requirements, as well as the South African Companies Act, 71 of 2008. The accounting policies have been applied consistently to all the periods presented, except for any restatements described in the annual financial statements. Critical judgments and accounting estimates are disclosed in detail in the group's integrated report for the year ended 30 June 2015, including changes in estimates that are an integral part of the insurance business. The group is exposed to financial and insurance risk, details of which are also provided elsewhere in this integrated report.

REGULATORY CHANGES

The impact of the introduction of the SAM basis of regulating long-term insurers on the basis of taxation of life companies

During 2016, the Financial Services Board intends to implement Solvency Assessment and Management (SAM), a risk-based supervisory regime for long and short-term insurers. The SAM basis of valuing policyholder liabilities is not necessarily appropriate for tax purposes. The tax authorities have proposed a new valuation method based on International Financial Reporting Standards, with some adjustments for tax purposes. The finer details of the proposal and transitional provisions are being considered by National Treasury.

Retail Distribution Review (RDR)

In November 2014, the FSB issued its proposals for the South African Retail Distribution Review (RDR). The introduction of RDR is expected to have a significant impact on the distribution environment for insurers. The Association for Savings and Investments in South Africa (ASISA) submitted comprehensive feedback on the proposals to the FSB on 23 March 2015. We are pleased that the FSB is following a collaborative approach to the implementation of RDR, similar to that followed for SAM. Six work groups were set up with both FSB and industry representatives to discuss the relevant issues. We expect more clarity on the RDR road map toward the end of the 2015 calendar year.

Taxation – Introduction of the Risk Policyholder Fund

During 2016, a new tax fund, in addition to the existing four tax funds, will be introduced. Risk policies issued after the implementation date will be taxed separately. The new fund will be known as the Risk Policyholder Fund (RPF) and will require extensive adjustments to the group's operational processes. MMI is currently adapting its internal product and operational processes to be ready for the new regime, commencing on 1 July 2017.

LOOKING AHEAD

As MMI broadens its footprint into Africa and other emerging markets we need to remain focused on our client-centric approach to ensure we remain responsive to clients' needs in different territories and markets. While the investment in strategic growth initiatives has an impact on earnings growth in the short term, these investments are key to advance our new strategy, ensuring growth into new markets, further enhancing the financial wellness of our clients and their communities, and to unlock shareholder value over time in an increasingly competitive environment.

Fast-moving progress in technology will require new skills and competencies, which in turn require us to make sure that we stay ahead of the curve. To remain competitive, access to extensive and up-to-date data will be critical as well as tools that will be needed to support, among other, leading actuarial modelling and analysis.

I am pleased to report that MMI is well positioned and equipped to deal with future challenges, which will result in successful outcomes.

CONCLUSION

The past financial year was characterised by the implementation and refinement of MMI's client-centric strategy. As group finance director and member of the executive committee, I am confident and excited about the positive expectations this new strategy holds. The primary focus is to ensure the successful execution of the client-centric strategy.



MMI's risk philosophy recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests.



RISK MANAGEMENT STRATEGY

MMI's key risk management strategies are to:

- Understand the nature of the risks MMI is exposed to, the range of outcomes under different scenarios, and the capital required for assuming these risks.
- Manage shareholder value by generating a long-term sustainable return on the capital required to back the risks assumed.
- Ensure the protection of client interests by maintaining adequate solvency levels.
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk-adjusted basis.
- Create a competitive long-term advantage in the management of the business with greater demonstrated responsibility to all stakeholders.

INTRODUCTION

MMI's risk philosophy recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound risk management practice.

Risk management enables management to deal with uncertainty and its associated risks and opportunities effectively, enhancing the capacity to build value.

The MMI board is ultimately responsible for the end-to-end process of risk management, and for assessing its effectiveness. Management is accountable to the board for designing, implementing and monitoring the process and for integrating it into the day-to-day activities of the group.

The board discharges these responsibilities by means of frameworks and policies approved and adopted by the board and its designated committees that direct the implementation and maintenance of adequate processes for corporate governance, compliance, and risk management. The risk management framework applies to all the divisions, business units, subsidiaries and activities of MMI.

RISK APPETITE

MMI's risk appetite is formulated by the Group Executive Committee and approved by the Board Risk, Capital and Compliance Committee, and expresses the level and type of risk which MMI is prepared to seek, accept or tolerate in pursuit of its strategic objectives.

The risk appetite includes quantitative boundaries on risk exposure and the group's economic capital requirements, supported by a detailed risk strategy. The risk strategy, which is also approved by the Board Risk, Capital and Compliance Committee, provides a qualitative specification of MMI's appetite for exposure to the different types and sources of risk.

The setting of risk appetite is fundamentally driven by the dual, and at times conflicting, objectives of creating shareholder value through risk taking, while providing financial security for customers through appropriate maintenance of the group's ongoing solvency. MMI's appetite for exposure to the different types and sources of risk is aligned with the strategic vision of MMI to be the preferred lifetime financial wellness partner of our clients, with a reputation for innovation and trustworthiness.

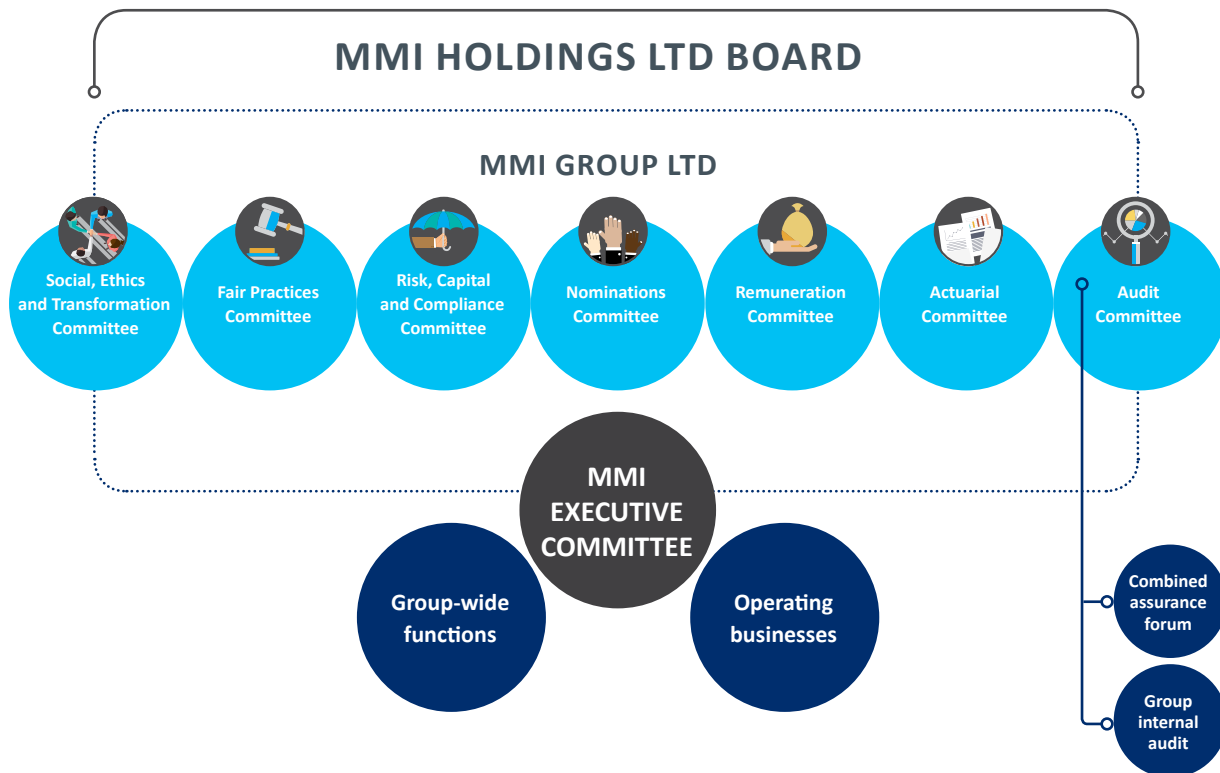
RISK TAXONOMY

MMI actively manages the following risk categories:

- Life insurance risk
- Non-life insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Strategic, business and reputational risk
- Operational risk

For further detail on the above risks and their management, please refer to the notes on pages 183 to 224 and the MMI Holdings website www.mmiholdings.com.

GROUP GOVERNANCE STRUCTURE



INTRODUCTION

The MMI board is committed to the highest standards of corporate practice and conduct, as recommended in the King Report on Governance for South Africa 2009 (King III). The group strives to have the best processes in place to implement principles of good corporate governance and to assist directors in discharging their duties and responsibilities, which include the delivery of excellent service to all stakeholders. Appropriate best practice is adopted and monitored in all the countries where the group operates.

GOVERNANCE OF RISK

MMI recognises that clear accountability is fundamental to risk management and makes use of various assurance providers to provide comfort that its key risks, processes and controls are functioning as intended. These assurance providers are all independent of the group and its activities. Combined assurance integrates and co-ordinates the activities of the assurance providers, whose functions include risk management, compliance, actuarial, internal audit and external audit. The MMI governance model is described in more detail in the MMI governance framework, which is available on the MMI website www.mmiholdings.com.

ASSESSMENT OF KING III PRINCIPLES

The assessment of the application and implementation of King III is ongoing. The results to date, show that MMI’s governance processes are well entrenched, and that the group is generally compliant with all the principles of King III. Where shortcomings have been identified, plans are being put in place to ensure compliance.

The following principle has been partially applied:

- Principle 9: Sustainability reporting and disclosure should be independently assured. External assurance has been limited to our broad-based black economic empowerment scorecard, verified by accredited ratings agency NERA and our carbon footprint, verified by Global Carbon Exchange.

A table disclosing all the principles of King III, and how each has been applied, is available on the MMI website www.mmiholdings.com. Reasons are given in each instance where a principle has not been applied.

BOARD AND COMMITTEES

The MMI board acts as the custodian of the group’s corporate governance and in the best interests of MMI and its stakeholders at all times and takes ultimate responsibility for MMI. The board is mandated in terms of its charter, which

includes details such as the roles and responsibilities of the board, its directors and the composition of the board. The board committees are mandated in terms of their respective terms of reference. The MMI Board Charter is reviewed on a regular basis and is in line with good corporate governance principles.



The board charter and the committees' terms of reference are available on the MMI website www.mmiholdings.com.

The MMI board is supported by the board committees depicted in the above organogram. These committees have delegated responsibility to assist in matters as defined in their respective Terms of Reference. These committees report to the MMI board on a quarterly basis and also to other relevant boards and committees from time to time. The MMI board approves the delegated responsibility and the powers, limits and authorities attached to board committees. Each committee has its own Charter or Terms of Reference, which sets out its purpose, composition and duties.

The committees are currently addressing the following issues:



SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE (SETC)

The MMI SETC is mandated and authorised by the board of directors of MMI Holdings Ltd (MMI) to focus on monitoring and providing the group with strategic guidance on the delivery of transformation. In doing this, the committee monitors the progress of the group in ensuring that the racial imbalances of the past are corrected and that Leadership and Talent are encouraged by positive and affirmative policies.

Transformation is integral to achieving MMI's vision of being the preferred lifetime financial wellness partner with a reputation for innovation and trustworthiness. Broad-based black economic empowerment (B-BBEE) underpins MMI's strategic objective to enhance financial wellness in a country that continues to grapple with inequality, access to financial services and lack of financial literacy, among other issues. B-BBEE supports the identified strategic focus areas of Growth, Client Centricity and Excellence that will contribute to achieving MMI's vision. In delivering its transformation objectives, MMI maintained a level 2 contributor status under the current Financial Sector Charter (FSC) framework.

Some of the key strategic initiatives that MMI was able to deliver with support of the SETC include the following:

- Approval of the group revised transformation strategy that aligns with the Department of Trade and Industry (dti) revised Codes of Good Practice (CoGP) as issued on 11 October 2013, and the required investment quantum to achieve the desired level contributor status by 2016.
- Approval of the group's enterprise and supplier development (ESD) programme, which focuses on providing

business development support to black-owned, and black women-owned businesses.

- Monitoring the group's performance against its employment equity (EE) plan.
- Ensuring that company procedures are ethical and in line with the legislative requirements for risk, compliance and treating customers fairly (TCF).
- In terms of sustainability reporting, approval of MMI's intensity target (targets that specify carbon emissions reductions in metric tons relative to productivity or economic output per employee, per metre square, per policy sold, per rand of total revenue, etc.) to be achieved by 2020.
- Approval of the Code of Conduct and the Ethics policy and its rollout plan.
- Approval of the social media policy and guidelines.
- Monitoring the impact of corporate social investment (CSI) initiatives in targeted communities/beneficiaries.

Sustainability governance

The head of sustainability reports to the group executive of Brand, Corporate Affairs and Transformation.

MMI's group executive performs a management review function and raises pertinent issues with the relevant committees of the board as and when appropriate.

Final accountability rests with the board and its committees, including the executive committees.



FAIR PRACTICES COMMITTEE (FPC)

The FPC is mandated by the board to ensure that the fair treatment of clients is embedded as a core corporate value at all levels within the MMI group of companies. Furthermore, the FPC functions as the Discretionary Participation Committee of MMI's life companies, ensuring the compliance with, and the monitoring of any changes to the principles and practices of financial management. Finally, the FPC acts as the independent governance forum responsible for overseeing the implementation of, and adherence to, the Treating Customers Fairly initiative of the Financial Services Board (FSB). During the year under review, the FPC carried out the above functions.



RISK, CAPITAL AND COMPLIANCE COMMITTEE

During the year, the Balance Sheet Management (BSM) Committee and the Risk and Compliance Committee merged to form the Risk, Capital and Compliance Committee. The committee is responsible for assisting the board in discharging its responsibility for risk, capital and compliance management within the MMI group. During the year, the committee focused on the review and challenge of the holistic risk profile (shareholder and policyholder risks) across MMI and

the supporting risk management processes. The committee oversees the key information technology risk exposure and the effective management thereof. The committee is also responsible for overseeing MMI's SAM implementation and this includes reviewing and approving policies and frameworks required under SAM, and oversight of the implementation of new risk appetite metrics and the Own Risk and Solvency Assessment (ORSA) process. The committee's role includes assisting the head of the risk management function and the head of the compliance control function in fulfilling his/her professional and statutory duties.



NOMINATIONS COMMITTEE

The Nominations Committee makes recommendations to the board on various issues, such as the appointment of non-executive directors and executive directors; ensures that appropriate consideration is given to succession planning for key executives, including succession planning for the board and its committees and the appointment of members to board committees. The committee plays a critical role in overseeing corporate governance matters within the group and ensures that there is a clear balance of power and authority at board level to ensure that no one director has unfettered powers. During the preceding year, the following were some of the matters tabled at the Nominations Committee meetings: succession planning, such as that for the group finance director; changes to the compositions of the board and board committees; the new MMI client-centric model; the MMI annual board and committee assessments, which were conducted by an external third party; and fit and proper status of responsible persons within MMI.



REMUNERATION COMMITTEE

The MMI Remuneration Committee (Remco) has an independent role to oversee the remuneration process, consider and approve remuneration-related issues and matters.

In the past year, a key focus point at Remco was to ensure that the MMI reward approach still aligns with good business practices and compliance as well as to ensure that the group remuneration policy/practices support the new MMI strategic objectives. Alignment with good business practice/compliance was achieved by introducing separate incentive plan performance conditions for control function holders, a revised performance bonus deferral scheme for executives as well as new minimum shareholding guidelines for the MMI Executive Committee. Based on extensive market benchmarks and in support of the new MMI strategic objectives, the Remco is currently finalising the optimal remuneration structure and pay mix for key executives. This will ensure that the MMI remuneration structure for both the guaranteed and variable components align with market norms and the new strategic long-term targets.



ACTUARIAL COMMITTEE

The role of the Actuarial Committee is to impart effective actuarial expertise to the board, to enhance its understanding of technical actuarial matters; to assist the board in discharging its fiduciary duties to policyholders and shareholders; and to assist the statutory actuary in fulfilling his professional and statutory duties. During the year, in addition to these roles, the Actuarial Committee played an instrumental role in reviewing SAM Pillar I results and relevant SAM policies. The committee's role includes assisting the head of the actuarial control function in fulfilling his/her professional and statutory duties.



AUDIT COMMITTEE

The Audit Committee ("committee") is an independent statutory committee appointed by the shareholders. In addition to its statutory responsibilities, the committee deals with duties that are delegated to it by the MMI Holdings board of directors. During the year, various issues were tabled, such as:

- Approval of the published MMI Holdings group financial results and relevant subsidiaries
- Trading updates
- Review of the integrated report
- To ensure flexibility, the risk-based internal audit plan for the 2016 financial year is now approved on a quarterly basis.
- Reviewing management's assessment of going concern
- Development of the combined assurance model
- Review of the group's internal financial controls (IFC)
- Recommendations on dividend proposals
- Review of the expertise, resources and experience of the company's finance function
- The committee oversaw the internal audit function and assessed the external audit proposal

The Audit Committee is assisted by combined assurance forums (renamed from divisional audit and risk panels), which report quarterly to the committee. The external and internal auditors attend committee meetings by invitation, present regular reports to the committee, and meet independently with the committee members from time to time. The committee monitors adherence to its roles and responsibilities against a well-structured matrix, which corresponds to the terms of reference of the committee and is in line with the Companies Act, King III recommendations, and other relevant prescripts.

The Audit Committee is also responsible for overseeing:

Group internal audit

MMI group internal audit provides independent, objective assurance and services designed to add value and improve the organisation's operations. It assists the organisation in achieving its objectives by bringing a systematic, disciplined

approach to evaluating and assessing the effectiveness of risk management, internal control, and governance processes. Material issues are brought to the attention of the Audit Committee, the external auditors and members of executive management for their consideration and action.

The chief audit executive (CAE), in discharging of his/her duties, is accountable to the board and Audit Committee of MMI Holdings, which consists of MMI Holdings Ltd and its subsidiaries. The CAE reported administratively to the MMI Holdings finance director during the financial year under review, and also functionally to the Audit Committee chairperson. The Audit Committee decides on the CAE's appointment and removal, and takes joint responsibility for his/her performance evaluation.

The CAE resigned during 2014 and Janet Terblanche was appointed as the acting CAE, until such time as the process of appointing a new candidate, which is currently under way, is finalised. Following the group finance director's retirement at the end of the financial year, the chief audit executive now reports to the chief risk officer.

Combined assurance forums

The Audit Committee is assisted by combined assurance forums (renamed from divisional audit and risk panels), which have been established in terms of its mandates and other licensed entity Audit committees. These forums report quarterly to the MMI Holdings Audit Committee. The roles and responsibilities, authority, composition, operations and other matters relating to these forums are delegated to them by the Audit Committee.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nominations Committee is responsible for identifying fit and proper candidates who could be appointed to the board, and evaluating them against the specific disciplines and areas of expertise required. The appointment, rotation, resignation and removal of directors are done in accordance with the company's constitution and the Companies Act. For more detail, please see the MMI Memorandum of Incorporation on the MMI website www.mmiholdings.com.

ETHICS

Code of conduct

MMI has a code of ethics and standards for conduct for ensuring that the requisite behaviour is aligned with its values. The group code of ethics is available on the MMI website www.mmiholdings.com.

The code of ethics and standards for conduct addresses the following areas, among others:

- Commitment to regulatory compliance
- Prohibiting giving and receiving of bribes

- Prohibiting facilitation payments
- Dealing with conflicts of interest
- Money laundering
- Prohibiting anti-competitive practices

Reporting fraud and unethical behaviour

MMI has a number of business-specific anti-fraud and unethical behaviour reporting structures that include telecommunication lines and web reporting tools for all employees, customers and authorities in local and African subsidiaries. These reporting structures adhere to the standards set in relevant legislation and good corporate practices.

Promotion of Access to Information Act, 2 of 2000

For the period under review, there were 25 requests for information received of which 11 requests were granted. Four requests were not completed due to outstanding documentation and four were referred to the relevant division for action in terms of contractual agreements. Six requests were declined.

Information technology governance

MMI's business is critically dependent on its information systems and information technology (IT). To ensure proper governance and risk management of this key business function, Exco established the MMI IT Exco tasked with overseeing all IT governance and the IT strategy. The board is ultimately responsible for IT governance.

Key responsibilities of the IT Exco include:

- Development of an MMI IT philosophy and IT strategy
- IT risk management and assurance
- Approval of major investments in technology (in collaboration with the board and divisional chief executive officers)
- IT performance monitoring and measurement

The chairman of the IT Exco is the chief operating officer (COO), who is also a member of the MMI Exco. All IT governance issues are reported to the Risk, Capital and Compliance Committee of the board through the IT Exco. MMI has also appointed a chief technology officer (CTO) who, together with the COO takes ownership of and responsibility for the MMI IT philosophy, strategy and governance. The CTO reports to the COO.

Managing IT risks

The IT Exco provides executive oversight and review of MMI's IT risk profile by:

- Ensuring the MMI IT risk management framework is appropriately implemented within all divisions, functions, group service areas and subsidiaries.
- Ensuring that MMI management is aware of their responsibilities as they relate to IT risk management and the implementation of controls.

- Ensuring the MMI’s IT risk exposure and the effectiveness of IT risk management processes are appropriate.
- Monitoring key corrective actions initiated by management and the IT risk management functions.
- Reporting key IT risk exposure and the effectiveness of the management thereof to the Risk, Capital and Compliance Committee.

Business disruption and disaster recovery

MMI’s business continuity management (BCM) programme ensures that our business will be able to continue its critical business processes should a large-scale incident disrupt business activities. BCM testing and disaster recovery were conducted across the group during the year under review.

The programme is driven and owned by the operating divisions, with programme guidance, monitoring and reporting provided at group level. Annual activities performed as part of our BCM programme include:

- Updating our business impact analysis and recovery plans
- Reviewing our recovery strategy and plans
- Validating our recovery procedures by exercising them

- Ensuring awareness of BCM throughout the group
- Reporting on our BCM status and capability

COMPLIANCE

The MMI compliance function is responsible for the compliance strategy of the group and oversees the effective implementation of the MMI compliance risk management policy. It is accountable to the board for managing and reporting identified compliance risks.

The compliance function is an integral part of the wider MMI risk management function and reports to the chief risk officer and the board. The chief risk officer reports to the group chief executive officer.

No material compliance breaches were reported during the period under review. MMI offers a wide range of financial services and is therefore subject to numerous legislative requirements when conducting business.

The following proposed and current legislation will have or already has a significant impact on our business:

Legislation	Management
National Health Insurance (NHI)	Metropolitan Health is actively involved in this initiative and is monitoring its effect on MMI’s health business.
Protection of Personal Information Act, 4 of 2013	MMI is implementing controls to meet the requirements of the Act.
Solvency Assessment and Management (SAM) regime	MMI has a programme in place to meet the requirements and implementation is proceeding according to plan.
Twin Peaks	The Financial Sector Regulation Bill was the first in a series of Bills towards the implementation of the Twin Peaks model. This coupled with the Draft Insurance Bill and TCF Market Conduct Framework has prompted MMI to align itself with the new Regulatory regime. MMI is involved in industry initiatives aimed at the effective implementation of the new regulatory regime.
Financial Intelligence Centre Amendment Bill	The amendment to the legislation introduces a risk-based approach to the management of money laundering in order to combat financial crimes. MMI is participating in industry initiatives regarding the proposed amendments and is monitoring the impact thereof on the business.
Retail Distribution Review	MMI is participating in Retail Distribution Review initiatives currently underway. These introduce proposals which prohibit the payment of commissions on investments and allow advisers to charge only advice fees in respect of these products. The proposals are also aimed at eliminating conflicts of interest that can result in customers being steered into inappropriate financial products and ensuring that financial institutions make customers fully aware of fees and commissions involved when financial advice is given.
Draft Demarcation Regulations	The Demarcation Regulations were published following the enactment of the Financial Services Laws General Amendment Act. These Regulations specify which types of health insurance policies are permissible under the Long-term and Short-term Insurance Acts and are accordingly excluded from regulation under the Medical Schemes Act. MMI has evaluated the affect the regulations could have on existing products and changes required to comply.
Draft Regulations: Retirement Funds	MMI is supportive of the Regulations that seek to lower charges and improve market conduct in the retirement industry. The draft regulations, when adopted, will require all retirement funds to operate a set of default policies that are in the long-term interests of members. The regulations will also prescribe the conditions that such default policies are required to meet.

BOARD EVALUATION

In line with best practice and King III, MMI carried out an appraisal of the performance of the board, its committees and individual directors during July 2014. The appraisal was undertaken by an external consultant through a customised self-assessment questionnaire and was conducted over a period of one month. There was 100% participation by all the directors. In general, the appraisals revealed that the board and committees were performing well. Areas identified as requiring development were acknowledged and discussed at Nominations Committee and board level. The appraisal process is conducted annually and the next one will be conducted internally. An external assessment of the board is conducted every three to five years.

COMPANY SECRETARY

The company secretary has unrestricted access to the chairman of the board and the chairpersons of all board committees, including the group CEO, and plays a vital role in ensuring the effectiveness of the board and its committees. The board of directors has satisfied itself that she is qualified and competent, in accordance with applicable legislation, to act as the group company secretary. There is an arm's-length relationship between the board and the company secretary in that the objectivity and independence of the company secretary is not unduly influenced. Her abbreviated CV is available on the MMI Holdings website www.mmiholdings.com.

SHARE DEALING AND INSIDER TRADING

The group developed and adopted a policy on dealings in MMI securities, which was approved at the board meeting held in November 2013. The policy was subsequently amended to include an addendum, which deals with disclosure by members of the Executive Committee and key employees. In essence, the policy imposes closed periods to prohibit dealing in the company's shares before the announcement of interim and year-end financial results as well as in any other period considered price sensitive in accordance with the Listings Requirements of the JSE Ltd. The directors and company secretary (including their associates) of MMI Holdings Ltd and its major subsidiaries may not trade during a prohibited period. All employees of the group are prohibited from trading in the listed company's shares during closed periods unless clearance to trade has been obtained from the group company secretary under the direction of the chairman of the board. The policy has been widely distributed within MMI to ensure that directors and employees are familiar with its content. The board has also approved an Information Policy during June 2015 which deals with the identification, classification and effect of information arising in the ordinary course of business and information arising not in the ordinary course of business with respect to the listed company and the regulatory and group compliance requirements in respect thereof.

POLITICAL PARTY SUPPORT

MMI endorses all the principles and institutions that support a free and democratic society. However, it does not make donations to or in favour of any political party.

FINANCIAL REPORTING

The group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are supported by reasonable judgements and estimates. The preparation is supervised by the group finance director, Mary Vilakazi, BCom (Hons), HDip Auditing, CA(SA). The directors are responsible for the financial statements of the group and the company, and are satisfied that they fairly present the financial position, performance and cash flows of the group and the company as at 30 June 2015. The external auditors are responsible for auditing the financial statements (see report on page 74). The embedded value statement is also subject to an independent review.

SHAREHOLDER COMMUNICATION

The group maintains highly rated standards of shareholder communication that are widely recognised by members of the investment community. Over and above the normal interim and full-year financial disclosure, the group also publishes quarterly financial updates that are distributed to all relevant parties.

DIRECTORS' INTERESTS

As a director of MMI's strategic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd, Vuyisa Nkonyeni has an interest in the contractual relationship between the two parties.

The following non-executive directors are also directors of RMI Holdings Ltd, a 24.5% shareholder in MMI Holdings Ltd: Leon Crouse, Johan Burger and Khehla Shubane. Leon Crouse is a shareholder representative on the board and thus non-executive, but not independent.

DIRECTORS' INDEPENDENCE

The board has considered the King III recommendations on independence of directors, as well as the provisions of the JSE Listings Requirements on the matter, and the individual status of the directors are recorded on pages 34 and 35 of this integrated report.

The company complies with the King III's recommendation of ensuring that the board comprises a majority of independent non-executive directors.

DIRECTORS' SHAREHOLDINGS

The direct and indirect shareholdings and share dealings of the directors of MMI Holdings Ltd as at 30 June 2015 are set out on pages 58 and 59. Directors have access to the group's shares through the open market.

DELEGATION OF AUTHORITY

The board has delegated the authority for the management of the group to the MMI group chief executive officer by way of a framework for the delegation of authority. In delegating these powers, the board has imposed certain restrictions, conditions and limits that they believe to be appropriate for the effective exercise of such delegated powers. The chief executive officer has, in turn sub-delegated authority to the chief executive officers of the operational structure and the heads of the support functions within MMI. The board reviews the delegation of authority regularly, as deemed appropriate. Despite having delegated power in this manner, it is still the ultimate duty of the board to monitor management's performance.

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2015

	Direct beneficial '000	Indirect beneficial '000	Total '000
Listed shares			
Nicolaas Kruger	64	315	379
Johan Burger	12	942	954
Niel Krige		408	408
Syd Muller	8	42	50
Sizwe Nxasana		60	60
Khehla Shubane	78	7	85
Frans Truter	44	433	477
Johan van Reenen		40	40
Total listed shares	206	2 247	2 453

TRADES IN MMI SHARES

2014/2015	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Sizwe Nxasana	2014-12-31	R30.19	119 925	Delivered ¹	Direct
Sizwe Nxasana	2014-12-31	R30.19	132 667	Delivered ²	Direct
Khehla Shubane	2014-12-31	R30.19	132 667	Delivered ²	Direct
Ben van der Ross	2014-12-31	R30.19	132 667	Delivered ²	Direct
Sizwe Nxasana	2015-03-12	R31.65	174 374	Sale	Direct
Khehla Shubane	2015-03-12	R31.65	54 449	Sale	Direct
Ben van der Ross	2015-05-14	R32.21	68 989	Sale	Direct
Ben van der Ross	2015-05-15	R32.24	63 678	Sale	Direct
Sizwe Nxasana	2015-06-24	R29.47	59 715	Sale (Transfer)	Direct transferred to indirect
Sizwe Nxasana	2015-06-24	R29.47	18 503	Sale (Donation)	Direct

MMI DIRECTORS' MMI SHAREHOLDING

AS AT 30 JUNE 2014

	Direct beneficial '000	Indirect beneficial '000	Total '000
Listed shares			
Nicolaas Kruger	64	315	379
Wilhelm van Zyl**	400		400
Johan Burger	12	942	954
Blignault Gouws***		210	210
Niel Krige		408	408
Syd Muller	8	42	50
Khehla Shubane		7	7
Frans Truter	44	433	477
Johan van Reenen		40	40
Total listed shares	528	2 397	2 925

TRADES IN MMI SHARES

2013/14	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Sizwe Nxasana	2013-11-01	R24.60	1 116 166	Sale	Direct

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2015

	Direct beneficial '000	Indirect beneficial '000	Total '000
Listed shares			
Johan Burger		1 184	1 184
Jabu Moleketi	6	14	20
JJ Njeke	17		17
Sizwe Nxasana	7		7
Khehla Shubane		10	10
Frans Truter	21	145	166
Total listed shares	51	1 353	1 404

TRADES IN RMI SHARES

2014/2015	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Khehla Shubane	2014-11-20	R41.37	4 000	Purchase	Indirect

MMI DIRECTORS' RMI SHAREHOLDING

AS AT 30 JUNE 2014

	Direct beneficial '000	Indirect beneficial '000	Total '000
Listed shares			
Wilhelm van Zyl**	8	64	72
Johan Burger		1 184	1 184
Blignault Gouws***		102	102
Jabu Moleketi	6	14	20
JJ Njeke	17		17
Sizwe Nxasana	7		7
Khehla Shubane		6	6
Frans Truter	21	145	166
Total listed shares	59	1 515	1 574

TRADES IN RMI SHARES

2013/14	Transaction date	Price	Number of shares	Nature of transaction	Extent of interest
Nicolaas Kruger	2013-10-23	R27.52	8 127	Sale	Direct
Blignault Gouws***	2013-09-10	R26.65	45 100	Purchase	Indirect
Jabu Moleketi	2013-09-25	R27.70	1 000	Sale	Direct
Jabu Moleketi	2014-03-31	R28.76	1 900	Sale	Direct

¹ Delivered, following the maturity of the employee component of FirstRand's 2005 black economic empowerment transaction and consequent unwind of the FirstRand Black Employee Trust on 31 December 2014.

² Delivered, following the maturity of the director component of FirstRand's 2005 black economic empowerment transaction and consequent unwind of the FirstRand Black Non-executive Directors Trust on 31 December 2014.

* The number of shares was overstated by 11 279 in the SENS announcement dated 5 January 2015.

** Resigned as director of MMI Holdings Ltd.

*** Retired as director of MMI Holdings Ltd.

MEMBERS OF MMI HOLDINGS LTD BOARD AND COMMITTEES

AS AT 30 JUNE 2015 (including changes effected after 30 June 2015)

Directors	Independent committee members	Audit	Actuarial	Remuneration	Social, ethics and transformation	Fair practices	Risk, capital and compliance	Balance sheet management ¹	Nominations
JJ Njeke (chairman)									✓ ²
Johan Burger (deputy chairman)				✓ ^{3,4}				✓ ²	✓
Nicolaas Kruger (group CEO)			✓		✓	✓	✓	✓	
Preston Speckmann (group finance director) ⁵							✓ ⁵	✓	
Mary Vilakazi (group finance director) ⁶			✓				✓	✓	
Ngao Motsei (executive director) ⁷									
Leon Crouse							✓ ⁸	✓	
Fatima Jakoet		✓					✓		✓ ⁹
Niel Krige									
Jabu Moleketi				✓ ³	✓				
Syd Muller		✓			✓ ²				
Vuyisa Nkonyeni							✓		
Sizwe Nxasana ¹⁰				✓ ^{2,7}					✓ ⁷
Khehla Shubane					✓	✓			
Frans Truter		✓ ²					✓ ¹¹		✓
Ben van der Ross				✓	✓	✓ ²			
Johan van Reenen				✓			✓		
Louis von Zeuner		✓					✓ ²	✓	✓ ¹²
	Blignault Gouws		✓ ¹³			✓ ⁷			
	Stephen Jurisich		✓ ²			✓ ⁶			
	George Marx					✓			
	Jaco van der Walt							✓	
	Marli Venter		✓						
	Sumarié Greybe ¹⁴		✓ ¹⁴						

¹ Committee ceased to exist on 31 December 2014. Oversight of the activities of the balance sheet management function was handed over to the Risk, Capital and Compliance Committee.

² Chairperson

³ Appointed 25 November 2014

⁴ Appointed chairperson 1 July 2015

⁵ Retired 30 June 2015

⁶ Appointed 1 July 2015

⁷ Resigned 30 June 2015

⁸ Appointed 1 March 2015

⁹ Resigned 1 September 2014

¹⁰ Retired 30 September 2015

¹¹ Appointed 1 January 2015

¹² Appointed 1 September 2014

¹³ Resigned 31 December 2014

¹⁴ Appointed 21 April 2015 (consultant)

ATTENDANCE AT MEETINGS FROM 1 JULY 2014 TO 30 JUNE 2015

	Holdings board	Audit	Actuarial	Remuneration	Social, ethics and transformation	Fair practices	Risk, capital and compliance	Balance sheet management ¹	Nominations
Meetings held	5	7	3	5	3	3	4	2	1
Members	Meetings attended								
JJ Njeke	4 ²								1 ²
Johan Burger	4			3 ³				2 ²	1
Nicolaas Kruger	5		3		3	3	4	2	
Preston Speckmann	5						3	2	
Ngao Motsei	5								
Leon Crouse	4						1 ⁴	2	
Fatima Jakoet	5	6					3		0 ⁵
Niel Krige	5								
Jabu Moleketi	3			3 ³	3				
Syd Muller	5	7			3 ²				
Vuyisa Nkonyeni	5						3		
Sizwe Nxasana	4			5 ²					1
Khehla Shubane	5				3	3			
Frans Truter	5	7 ²					2 ⁶		1
Ben van der Ross	4			4	2	3 ²			
Johan van Reenen	5			5			4		
Louis von Zeuner	5	6					4 ²	2	1 ⁷
Blignault Gouws ⁸			0 ⁹			2			
Stephen Jurisich ⁸			3 ²						
George Marx ⁸						3			
Jaco van der Walt ⁸								2	
Marli Venter ⁸			3						
Sumarié Greybe ¹⁰			2 ¹⁰						

¹ Committee ceased to exist on 31 December 2014. Oversight of the activities of the balance sheet management function was handed over to the Risk, Capital and Compliance Committee.

² Chairperson

³ Appointed 25 November 2014

⁴ Appointed 1 March 2015

⁵ Resigned 1 September 2014

⁶ Appointed 1 January 2015

⁷ Appointed 1 September 2014

⁸ Independent committee member

⁹ Resigned 31 December 2014

¹⁰ Appointed 21 April 2015 (independent consultant)

REMUNERATION POLICY

MMI's remuneration policy is one of the key components of the group's overall human resources (HR) strategy. It supports the HR strategy by helping to build a high-performance, values-driven culture with a view to capitalising on growth and expansion opportunities, raising the group's levels of innovation and entrenching its entrepreneurial approach to business. The full MMI remuneration policy is available on the MMI website www.mmiholdings.com.

Key elements of MMI's remuneration policy

The Remuneration Committee, which is responsible to the board, oversees the setting and administration of the remuneration policy, subject to constant monitoring and regular review. The full terms of reference of the committee are available on the MMI website www.mmiholdings.com. Directors' attendance at committee meetings is available on page 61. The activities of the committee for the year under review are detailed on pages 54 and 55. The remuneration policy is based fundamentally on the following principles:

- The remuneration policy is aligned with the overall business strategy, objectives and values of the group without being detrimental to the interests of its policyholders.
- Metrics to assess performance will take into account not only the level of achievement, but also the risks taken in achieving that level of performance, ie performance measures will be risk-adjusted where appropriate.
- Employees are offered a competitive total remuneration package, benchmarked to the market.
- All remuneration (guaranteed and variable) is differentiated based on performance.
- Guaranteed remuneration is normally set at the median market level. However, it can be targeted at levels in the upper quartile for key positions where a premium is payable due to the scarcity and/or technical nature of skills.
- Three performance components are appraised, based on a robust performance management system – group, divisional and individual performance.
- Subjective and objective measures are used for individual performance appraisal purposes.
- The policy takes into account the level of accountability (related to the diversity and complexity of decisions made plus the degree of responsibility and/or level of authority involved in the job). Pay bands will take into account the going market rate for the particular job.
- Pay bands are broad and allow flexibility.
- Individuals are remunerated for their unique individual contribution (individual worth), as well as for their contribution to/collaboration in meeting team objectives.
- The short-term incentive (or performance bonus) scheme is used to promote goal attainment (mutually agreed, strategically aligned outcomes/targets that contribute to the successful implementation of the group's strategic business plans) over a one-year period.

- A long-term incentive plan focuses on the realisation of the group's vision for the future and aligning performance with longer-term value-adding objectives over a three-year period.
- Pay-for-performance incentive systems have also been instituted based on predefined quantitative and qualitative measures.
- The remuneration of employees in the risk and compliance functions is determined independently of the various divisions in MMI, with performance measures based principally on the achievement of their function's current objectives.
- Incentives are based on targets that are stretching, verifiable and relevant. Multiple performance measures are used to avoid manipulation of results or poor business decisions.
- Incentive awards are made on a sliding scale to avoid an "all or nothing" vesting profile and start at a level that is not significant in comparison with base pay. Full vesting requires significant value creation.

Areas reviewed by Remuneration Committee in 2015

Based on a best practice review and recommendations from an independent remuneration consultant, namely PwC Reward Services, the Remuneration Committee considered and approved the following –

Minimum shareholding requirements

The introduction of a minimum shareholding requirement is intended to encourage executive directors to retain vested shares received in terms of the long-term incentive plan (LTIP) and to be personally invested in the company, thus increasing executive ownership and encouraging alignment between executive and stakeholder interests.

The introduction of the minimum shareholding requirement is in line with emerging best practice in South Africa, and is in line with international corporate governance standards.

The approved minimum shareholding requirements provide that:

- For the CEO: 150% of the value of his guaranteed remuneration should be held as MMI shares.
- For other executives: 50% of the value of their guaranteed remuneration should be held as MMI shares.
- A period of five years is provided to enable the CEO and executives to build up the required shareholding.
- Shareholding should be built up using the proceeds of the LTIP upon vesting to purchase MMI shares.
- The Remuneration Committee will monitor levels of shareholding and compliance with the minimum shareholding requirements.

Review of MMI's long-term incentive


LTIP with longer vesting period

- In line with MMI's operating structure and its client-centric strategy the need was recognised for one-off LTIPs with a longer vesting period of five years.
- Vesting of the one-off LTIP is dependent on the group's return on embedded value (ROEV), measured against the country's growth in gross domestic product (nominal GDP).

The targeted ROEV is nominal GDP growth + 6% per annum. This was chosen as the performance metric as it supports MMI's cumulative client embedded earnings targets.

Review of vesting quantum and performance conditions for vesting

For the annual LTIP awards the stretch vesting of 250% was amended to allow for 200% vesting at stretch. The performance conditions for the LTIP were reviewed and amended as follows:

Prior performance condition	Current performance condition
 Target ROEV of nominal GDP growth + 3% per annum (100% vesting)	Target ROEV of nominal GDP growth + 3% per annum (100% vesting)
Stretch ROEV of nominal GDP growth + 3% per annum PLUS relative ROEV measure, namely: ROEV outperformance compared to four other financial services companies (250% vesting)	Stretch ROEV of nominal GDP growth + 6% per annum (200% vesting)
The relative ROEV measure applicable to prior years was removed by the Remuneration Committee and replaced by an absolute ROEV measure. This was done after the Remuneration Committee carefully considered the concerns posed by the relative ROEV measure, such as:	
<ul style="list-style-type: none"> • The comparator group is considered too small, and the comparator companies were not considered adequately comparable to MMI and its business model. • Testing of the relative performance measure was considered to be a complex exercise. • The market is moving away from relative performance measures towards absolute performance targets. 	

Remuneration structure

Guaranteed remuneration/package

- The key objective is to provide the base element of remuneration that reflects the person's role/position at MMI and is payable for doing the expected job.
- Guaranteed remuneration is paid monthly on a cost to company basis.
- Guaranteed remuneration is generally targeted at the median/50th percentile level.
- Guaranteed remuneration is normally benchmarked against the financial services market.
- Guaranteed remuneration is set at a level that aligns with expected operational performance.
- All employees, including executive directors, managing executives, heads of control functions and other employees, who may have a material impact on the risk exposure of MMI, are eligible for the guaranteed remuneration.

MMI's short-term incentive (performance bonus) scheme

The group's key short-term incentive scheme is a non-guaranteed performance bonus, paid annually as a percentage of an individual's total guaranteed remuneration package.

Why a performance bonus?

- Performance bonuses are awarded for the attainment of preset, business-aligned performance objectives.
- Bonuses serve as both motivation and reward for scheme participants who achieve or exceed these performance objectives.

Who qualifies for a performance bonus?

- All employees are eligible to participate in the performance bonus scheme.

What performance objectives have to be met?

- Performance objectives are set at three levels: group, divisional and individual.
- To strengthen the link between pay and individual performance, strategic objectives, as set out in the group and divisional operating plans, are translated into individual goals, including knowledge, skills and competence to be acquired.
- Individual goals are agreed upfront, ie at the start of each performance period.

Who approves the performance objectives?

- All group and divisional targets have to be approved by the Remuneration Committee of the board.
- Individual goals/targets have to be agreed with the employee's line manager or team leader.

How is performance appraised?

- The group and divisional components of performance are appraised based on a balanced scorecard comprising metrics of a financial and non-financial nature. The same metrics apply in part to individual performance in line with the individual's level of accountability.
- Group performance is evaluated by the Remuneration Committee, divisional performance by the group chief executive officer and individual performance in terms of MMI's performance management system.

How are performance bonuses paid?

Provided all relevant group, divisional and personal performance criteria are met, performance bonuses are determined annually and paid as set out below:

- Performance bonuses above a certain threshold level are paid out in two tranches, depending on the overall amount involved. Bonuses below the threshold level are paid in cash by way of a lump sum payment once the bonus has been determined.
- Performance bonuses above a certain second threshold are paid out in three tranches with a percentage of the final tranche deferred into retention units of the long-term incentive plan, vesting after two years.
- Bonus amounts not yet paid can be withheld if the performance of the group, division or individual deteriorates significantly prior to the payout dates of the remaining tranches.

Long-term incentive plan (LTIP)

- The purpose of the LTIP is to attract, motivate, reward and thus help in retaining employees who are able to influence the performance of the group on a basis that aligns their interests with those of the group's shareholders.
- The LTIP is a cash-settled share scheme. On vesting participants are paid a cash amount, calculated using the value of a MMI Holdings Ltd share on the JSE.
- Each tranche of shares (allocated on an annual basis) contains a combination of performance (acting as a performance driver) and retention (acting as a retention mechanism) units, all of which vest after three years.

- For each tranche of shares, performance criteria are measured and averaged over the three-year vesting period, thus eliminating short-term fluctuations and focusing on long-term value creation.
- The primary metric under the LTIP is the group's ROEV, measured against the country's growth in nominal GDP. The targeted ROEV is nominal GDP growth + 3% per annum (100% vesting at this target) and the stretch target for ROEV is nominal GDP growth + 6% per annum (200% vesting at stretch).
- ROEV is a risk-cognisant metric, because it references economic and other capital consumed by the business. Economic capital is determined on a risk-based manner.
- The vesting of performance units is determined in accordance with performance levels, namely threshold performance (30% vesting), target performance (100% vesting) and stretch performance (200% vesting).
- The Remuneration Committee may, at its sole discretion, waive or amend the performance criteria for performance units should extraordinary circumstances arise.
- If the Remuneration Committee deems it appropriate, the performance criteria for the award of future performance units may be different, taking into account the prevailing economic conditions.

Balanced scorecard

The balanced scorecard incorporates five key performance indicators/metrics of which all are reviewed annually.

For 2015, the following metrics applied:

- Three financial metrics
 - Core headline earnings
 - ROEV
 - Embedded value of new business
- Two non-financial metrics
 - Strategic projects
 - Transformation (FSC scorecard)

MMI's scorecard contains the group's objectives. In addition to that, each division has its own scorecard that aligns with the group scorecard, but contains division-specific targets and objectives.

Meeting the group's objectives is paramount. Performance against the group's targets determines the size of the aggregate bonus pool. The performance of each division against its scorecard determines how the aggregate bonus pool is allocated between divisions.

PERFORMANCE SCORECARD 2015

	Weight	F2015 target	Actual	Achieved
Return on embedded value*	20%	GDP plus 3%	10.6%	↔
Value of new business	20%	R880 million	R954 million	↑↑↑
Core headline earnings	25%	GDP plus 3%	6%	↓↓↓
Transformation	15%	FSC score of 75	91	↑↑↑
Strategic initiatives	20%	Self-assessment		↑↑

* For short-term incentive scorecard purposes, investment variances are excluded from the return on embedded value.

STRATEGIC INITIATIVES

The strategic initiatives listed below have been identified as essential to the ongoing success of MMI. They have been included to ensure that the focus of the scorecard is not exclusively on short-term profitability but gives due recognition to initiatives expected to add value over the longer term by improving the group's strategic positioning in areas other than purely financial:

- Expand the middle-market business (client solutions and distribution channels) in line with the group's strategy.
- Implement appropriate strategies in terms of merger and acquisition capabilities.
- Enhance geographical diversification in Africa, India and Southeast Asia by implementing agreed-upon strategies.

- Implement MMI's growth strategy for short-term insurance.
- Establish and implement an integrated Financial Wellness and Rewards capability.
- Align operating structure to the group's client-centric strategy.

TRANSFORMATION

Overall B-BBEE scorecard

The Financial Sector Charter (FSC) takes into account the various pillars of broad-based black economic empowerment, including all labour and transformation-related policies and practices: eg ownership, employment equity, skills development, procurement, socio-economic development and enterprise development.

LONG-TERM INCENTIVE SCHEME (PERFORMANCE TO DATE)

Return on embedded value (ROEV)	Target (GDP+3%)	ROEV*
Notional shares issued 2012 and vesting 2015		
Annualised performance for the 36 months 1 July 2012 to 30 June 2015	10.4%	15.2%
Notional shares issued 2013 and vesting 2016		
Annualised performance for the 24 months 1 July 2013 to 30 June 2015	10.2%	14.2%
Notional shares issued 2014 and vesting 2017		
Annualised performance for the 12 months 1 July 2014 to 30 June 2015	9.2%	9.6%

* Average annualised percentages, measured since inception of each tranche up to 30 June 2015.

DISCLOSURE OF DIRECTORS' REMUNERATION

King III and the Companies Act require that the individual remuneration of all prescribed officers should be disclosed. The identified prescribed officers of MMI are Nicolaas Kruger, Ngao Motsei and Preston Speckmann. Their remuneration is set out on pages 66 to 68.



Details of the remuneration of executive and non-executive directors are provided on pages 66 to 68.



DIRECTORS' EMOLUMENTS

Non-executive directors are paid an all-inclusive retainer, which is annually benchmarked by participation in various market surveys. The non-executive directors' fees are not linked to the performance of the company in any way.

REMUNERATION REPORT CONTINUED

DIRECTORS' EMOLUMENTS

Directors	Months		Fees R'000		Salary R'000		Performance bonus R'000	
	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014
Nicolaas Kruger	12	12	–	–	5 562	5 082	5 404	7 104
Wilhelm van Zyl ¹	–	12	–	–	25 000	4 695	–	6 256
Preston Speckmann ⁵	12	12	–	–	4 485	3 270	2 758	3 798
Ngao Motsei ⁶	12	12	–	–	12 489	1 897	2 014	2 027
Morris Mthombeni ²	–	–	–	–	–	4 107	–	–
Ben van der Ross	12	12	1 553	1 097	–	–	–	–
Blignault Gouws ³	–	5	–	868	–	–	–	–
Fatima Jakoet	12	12	1 155	1 456	–	–	–	–
Frans Truter	12	12	2 302	2 249	–	–	–	–
Jabu Moleketi	12	12	819	683	–	–	–	–
JJ Njeke	12	12	1 681	1 604	–	–	–	–
Johan Burger	12	12	1 169	1 043	–	–	–	–
Johan van Reenen	12	12	910	850	–	–	–	–
Khehla Shubane	12	12	731	614	–	–	–	–
Leon Crouse	12	12	732	652	–	–	–	–
Louis von Zeuner	12	6	1 442	518	–	–	–	–
Mary Vilakazi ⁴	–	5	–	907	–	–	–	–
Niel Krige	12	12	581	543	–	–	–	–
Sizwe Nxasana	12	12	822	839	–	–	–	–
Syd Muller	12	12	1 262	1 215	–	–	–	–
Vuyisa Nkonyeni	12	12	761	739	–	–	–	–
			15 920	15 877	47 536	19 051	10 176	19 185

Directors	Long-term incentive payments		Expense allowances R'000		Pension fund R'000		Total R'000	
	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014
Nicolaas Kruger	13 380	12 339	–	–	319	298	24 665	24 823
Wilhelm van Zyl ¹	–	12 364	–	–	–	343	25 000	23 658
Preston Speckmann ⁵	5 295	7 728	–	–	225	207	12 763	15 003
Ngao Motsei ⁶	2 792	–	–	–	319	288	17 614	4 212
Morris Mthombeni ²	–	–	–	–	–	–	–	4 107
Ben van der Ross	–	–	–	–	–	–	1 553	1 097
Blignault Gouws ³	–	–	–	–	–	–	–	868
Fatima Jakoet	–	–	–	–	–	–	1 155	1 456
Frans Truter	–	–	–	–	–	–	2 302	2 249
Jabu Moleketi	–	–	–	–	–	–	819	683
JJ Njeke	–	–	–	–	–	–	1 681	1 604
Johan Burger	–	–	–	–	–	–	1 169	1 043
Johan van Reenen	–	–	–	–	–	–	910	850
Khehla Shubane	–	–	–	–	–	–	731	614
Leon Crouse	–	–	–	–	–	–	732	652
Louis von Zeuner	–	–	–	–	–	–	1 442	518
Mary Vilakazi ⁴	–	–	–	–	–	–	–	907
Niel Krige	–	–	–	–	–	–	581	543
Sizwe Nxasana	–	–	–	–	–	–	822	839
Syd Muller	–	–	–	–	–	–	1 262	1 215
Vuyisa Nkonyeni	–	–	–	–	–	–	761	739
	21 467	32 431	–	–	863	1 136	95 962	87 680

¹ Resigned 30 June 2014 (included in the salary figure is a loss of office payment of R25 000 000)

² Resigned 31 August 2012 (included in the salary figure is a loss of office payment of R4 106 521)

³ Resigned 27 November 2013

⁴ Resigned 27 November 2013

⁵ Resigned 30 June 2015

⁶ Resigned 30 June 2015 (included in the salary figure is a loss of office payment of R10 000 000)

EXECUTIVE DIRECTORS' INCENTIVISATION

	MomCSP ¹		MMI LTRAS ²	
	N Kruger	N Kruger	W van Zyl	P Speckmann
	'000	'000	'000	'000
Units in force at 1 July 2013 (thousands)	30	458	489	305
Units exercised/released during year (thousands)	(30)	(458)	(489)	(305)
Market value of range at date of exercise/release	2 515	2 530	2 530	2 530
Units in force at 30 June 2014 (thousands)	–	–	–	–
Units in force at 30 June 2015 (thousands)	–	–	–	–

¹ Momentum Conditional Share Plan (MomCSP)

² MMI Long-term Retention Award Scheme (MMI LTRAS)

	MMI LTIP ³							
	N Kruger		W van Zyl		P Speckmann		N Motsei	
	Retention	Performance	Retention	Performance	Retention	Performance	Retention	Performance
	units	units	units	units	units	units	units	units
	'000	'000	'000	'000	'000	'000	'000	'000
Units in force at 1 July 2013 (thousands)	112	742	95	498	68	271	37	150
Units granted during year (thousands)	50	333	42	222	30	120	29	117
Granted at prices ranging between (cents)	2 444	2 444	2 444	2 444	2 444	2 444	2 444	2 444
Units in force at 30 June 2014 (thousands)	162	1 075	137	720	98	391	66	267
Units granted during year (thousands) ⁴	155	405	–	–	63	135	33	85
Granted at prices ranging between (cents)	2 826 – 2 833	2 833	–	–	2 826 – 2 833	2 833	2 826 – 2 833	2 833
Units exercised/released during year (thousands)	(61)	(398)	–	–	(36)	(146)	(19)	(77)
Market value of range at date of exercise/release	2 907	2 907	–	–	2 907	2 907	2 907	2 907
Units cancelled/lapsed during year (thousands)	–	–	(137)	(720)	–	–	(80)	(275)
Units in force at 30 June 2015 (thousands)	256	1 082	–	–	125	380	–	–

³ MMI Long-term Incentive Plan (MMI LTIP)

⁴ For performance units, this represents 100% of the units granted. The actual number of units that will ultimately vest will depend on the extent to which the performance criteria are met at the end of the vesting period.

REMUNERATION REPORT CONTINUED

Units outstanding (by expiry date) for the MMI LTIP are as follows:

	N Kruger		W van Zyl		P Speckmann		N Motsei	
	Retention units '000	Performance units '000	Retention units '000	Performance units '000	Retention units '000	Performance units '000	Retention units '000	Performance units '000
2015								
Financial year 2015/2016	57	381			35	139		
Financial year 2016/2017	145	337			60	121		
Financial year 2017/2018	54	364			30	120		
Total outstanding shares	256	1 082	–	–	125	380	–	–
2014								
Financial year 2014/2015	61	399	51	268	36	146	19	77
Financial year 2015/2016	53	359	45	240	33	130	19	76
Financial year 2016/2017	48	317	41	212	29	115	28	114
Total outstanding shares	162	1 075	137	720	98	391	66	267

	MMI OP ⁵ N Kruger Performance units '000
2015	
Units in force at 30 June 2014 (thousands)	–
Units granted during year (thousands) ⁴	1 498
Granted at prices ranging between (cents)	2 833
Units in force at 30 June 2015 (thousands)	1 498

⁴ For performance units, this represents 100% of the units granted. The actual number of units that will ultimately vest will depend on the extent to which the performance criteria are met at the end of the vesting period.

⁵ MMI Outperformance Plan (MMI OP)

Units outstanding (by expiry date) for the MMI OP are as follows:

	N Kruger Performance units '000
2015	
Financial year 2018/2019	899
Financial year 2019/2020	599
Total outstanding shares	1 498

We are pleased to present our report for the financial year ended 30 June 2015.

The Audit Committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the Audit Committee by the board of directors of the company. This report includes both sets of duties and responsibilities.

COMPOSITION AND PROCEEDINGS

The MMI Audit Committee was fully functional during the financial year, and continued to discharge its responsibility with the support of the combined assurance forums established for various operating structures. The divisional combined assurance forums report to the MMI Audit Committee on a quarterly basis. The Audit Committee consists of four independent non-executive directors, and is attended by some management representatives of the divisional combined assurance forums.

In addition, the chief executive officer and the group finance director attend all Audit Committee meetings. The external and internal auditors attend Audit Committee meetings by invitation, and the external and internal auditors meet independently with the Audit Committee as and when required.

TERMS OF REFERENCE

The Audit Committee has terms of reference that were approved by the board. The Audit Committee has regulated its affairs in compliance with the terms of reference and has discharged its responsibilities accordingly.

The terms of reference, including roles and responsibilities, were aligned with the requirements of King III, the Companies Act and other regulatory requirements. In instances where King III principles and requirements have not been applied, these have been explained in the corporate governance statement, included on page 52 of the integrated report.



EXTERNAL AUDIT

The Audit Committee is satisfied with the independence and objectivity of the external auditor in accordance with section 94(8) of the Companies Act, which includes consideration of the auditor's previous appointments, the extent of other work undertaken, and compliance with criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditor that internal audit governance processes within the audit firm support and demonstrate its claim of independence.

The Audit Committee has approved a policy for the provision of non-audit services. Fees paid to the external auditors are disclosed in note 34 to the annual financial statements on page 175.



The Audit Committee nominated, for election at the annual general meeting, PricewaterhouseCoopers as the external audit firm and Mr Andrew Taylor as the designated auditor responsible for performing the function of auditor for the 2015 year. The Audit Committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisers.

INTERNAL AUDIT

The Audit Committee is responsible for ensuring the internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. The chief audit executive (CAE), in discharging of his/her duties, is accountable to the board and Audit Committee of MMI Holdings, which consists of MMI Holdings Ltd and its subsidiaries. The CAE reported administratively to the MMI Holdings finance director during the financial year under review, and also functionally to the Audit Committee chairperson. The Audit Committee decides on the CAE's appointment and removal, and takes joint responsibility for his/her performance evaluation.

The CAE resigned during 2014 and Janet Terblanche was appointed as the acting CAE, until such time as the process of appointing a new candidate, which is currently under way, is finalised. Following the group finance director's retirement at the end of the financial year, the chief audit executive now reports to the chief risk officer.

Internal audit operates according to the internal audit charter, which was approved by the board. Due to the changes currently in the business as a result of the implementation of a client-centric model, internal audit changed their approach to the audit plan in order to remain flexible through the change process. As a result, the risk-based internal audit plan for the 2016 financial year is approved by the Audit Committee on a quarterly basis. A comprehensive list of possible risk-based audits is kept by internal audit, which is assessed and presented for approval by the Audit Committee every quarter. The quarter one 2016 plan was approved on 15 May 2015.

The Audit Committee is also responsible for assessing the performance of the chief audit executive and the internal audit function.

The group implemented a combined assurance methodology, and the results were reported to the Audit Committee.

INTERNAL FINANCIAL CONTROLS (IFC)

A high-level review of the design, implementation and effectiveness of the combined group's IFC was performed in all material divisions. The IFC review provides comfort on the financial reporting controls, which are relied on for the preparation and presentation of the annual financial statements.

Nothing has come to the attention of the Audit Committee to indicate a material breakdown in the IFC during the financial year. This assessment was based on the results of the documented review noted above, information and explanations given by management and the group internal audit function, as well as discussions with the independent external auditors on the results of their audits.

GROUP FINANCE DIRECTOR

Preston Speckmann retired as group finance director on 30 June 2015, and Mary Vilakazi was appointed as group finance director with effect from 1 July 2015.

The Audit Committee has satisfied itself that the previous and the new group finance director have appropriate expertise and experience.

GOVERNANCE OF RISK

The board has assigned oversight of the company's risk management function to the Risk, Capital and Compliance Committee. The chairman of the Risk, Capital and Compliance Committee is a member of the Audit Committee and likewise, the chairman of the Audit Committee is a member of the Risk, Capital and Compliance Committee to ensure that information relevant to these committees is transferred effectively. The Audit Committee oversees financial reporting risks, IFC, and fraud and information technology risks as these relate to financial reporting.

INTEGRATED REPORT

The Audit Committee has reviewed the integrated report of the group for the year ended 30 June 2015 and submits that management presented an appropriate view of the group's position and performance. The Audit Committee considers that the group accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards (IFRS).

SUSTAINABILITY

MMI is fully committed to good sustainability principles. The group strives to be financially sound, socially responsible and environmentally friendly, with good corporate governance as the overarching principle. In this regard, MMI supports the recommendations as set out in King III.

GOING CONCERN

The Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and made a recommendation to the board in accordance with this assessment. The board's statement on the going concern status appears on page 73 of the integrated report.



MEETINGS AND EFFECTIVENESS REVIEW

Audit	
Meetings held in 2015	7
Members	
Meetings attended	
Frans Truter	7
Fatima Jakoet	6
Syd Muller	7
Louis von Zeuner	6

During the year under review, the effectiveness of the Audit Committee was assessed by the Audit Committee members, and the results were shared with the board. The Audit Committee confirms that it discharged its duties and responsibilities in accordance with the terms of reference.

FRANS TRUTER

Chairman of the Audit Committee

8 September 2015



MMI HOLDINGS LTD GROUP ANNUAL FINANCIAL STATEMENTS 30 JUNE 2015

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The preparation of the group's audited consolidated results was supervised by the group finance director, Mary Vilakazi, CA(SA).

DIRECTORS' RESPONSIBILITY AND APPROVAL

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors take responsibility for ensuring that these financial statements accurately and fairly represent the state of affairs of the company and of the group at the end of the financial year and the profits and losses for the year. The directors are also responsible for the accuracy and consistency of other information included in the financial statements.

To enable the directors to meet these responsibilities:

- The group and company financial statements are prepared by management; opinions are obtained from the statutory actuaries of the life insurance companies and the external auditors of the companies.
- The board is advised by the Audit Committee, comprising only independent non-executive directors, and the Actuarial Committee. These committees meet regularly with the auditors, the statutory actuaries and the management of the group to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards and advisory practice notes issued by the Actuarial Society of South Africa. The internal auditors, external auditors and the statutory actuaries of the companies have unrestricted access to these committees.

To the best of their knowledge and belief the directors are satisfied that no material breakdown in the operation of the systems of internal financial controls and procedures occurred during the year under review.

The financial statements have been prepared in accordance with the provisions of the South African Companies Act, 71 of 2008, the Long-term Insurance Act, 52 of 1998, and the Short-term Insurance Act, 53 of 1998, as amended, and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

The directors have no reason to believe that the group will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

It is the responsibility of the independent auditors to report on the financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The report of the independent auditors is presented on page 74.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 92 to 262, were approved by the board of directors on 8 September 2015 and are signed on its behalf by:



JJ Njeke
Group chairman
Centurion, 8 September 2015



Nicolaas Kruger
Group chief executive officer
Centurion, 8 September 2015

CERTIFICATE BY THE GROUP COMPANY SECRETARY

In accordance with the provisions of section 88(2)(e) of the South African Companies Act, 71 of 2008 (the act), I certify that for the year ended 30 June 2015 the companies have lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.



Maliga Chetty
Group company secretary
Centurion, 8 September 2015

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF MMI HOLDINGS LTD

We have audited the consolidated and separate financial statements of MMI Holdings Ltd set out on pages 98 to 262, which comprise the statements of financial position as at 30 June 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of MMI Holdings Ltd as at 30 June 2015, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2015, we have read the directors' report, the Audit Committee's report and the certificate by the group company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.



PricewaterhouseCoopers Inc.

Director: Andrew Taylor

Registered auditor

Sunninghill, 8 September 2015

Adjusted net worth (ANW)

The ANW is the excess of assets over liabilities on the statutory basis, but where certain deductions for disregarded assets and impairments have been added back.

Advisory practice notes (APNs)

The Actuarial Society of South Africa (ASSA) issues APNs applicable to various areas of financial reporting and practice that require actuarial input. The APNs are available on the ASSA website (www.actuarialsociety.org.za).

Annual premium equivalent (APE)

The APE is a common life industry measure of new business sales. It is calculated as annualised new recurring premiums plus 10% of single premiums.

Basis changes

Basis and other changes are the result of changes in actuarial assumptions and methodologies, reviewed at the reporting date and used in the financial soundness valuation basis. These changes are reflected in the income statement as they occur.

Bonus stabilisation accounts (BSAs)

BSAs are the difference between the fund accounts of smoothed bonus business, or the discounted value of projected future benefit payments for with-profit annuity business, and the market values of the underlying assets. BSA is an actuarial term that constitutes either an asset or liability in accounting terms. The BSAs are included in contract holder liabilities.

Capital adequacy requirement (CAR)

The CAR is a minimum statutory capital requirement for South African life insurance companies that is prescribed in the Standards of Actuarial Practice (SAP) 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. CAR does not form part of the contract holder liabilities and is covered by the shareholder assets.

Capitation contracts

Capitation contracts are those under which the group accepts significant health benefit risk from medical schemes (the contract holder) by agreeing to indemnify the scheme against a defined set of the scheme benefits (the covered event) in return for a capitation fee.

Carry positions

Carry positions consist of sale and repurchase of assets agreements containing the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date.
- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date.

Cash-generating units

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or groups of assets.

Cell captive

A cell captive is a contractual arrangement entered into between the insurer (referred to as the “cell provider” or “promoter”) and the cell shareholder whereby the risks and rewards associated with certain insurance activities accruing to the cell shareholder, in relation to the insurer, are specified. Cell captives allow clients to purchase cell owner ordinary shares (or a “cell”) in the registered insurance company which undertakes the professional insurance and financial management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analyses, investment and accounting services. The terms and conditions of the cell are governed by the cell owner shareholders agreement.

Cell captive arrangements include:

- “First-party” cell arrangements where the risks that are being insured relate to the cell shareholder’s own operations or operations within the cell shareholder’s group of companies; and
- “Third-party” cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.
- Contingency policy: An insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a profit share to the insured based on claims experience and related expenses at the end of the policy period.
- “Promoter cell” includes assets and liabilities of MMI shareholders. Assets, liabilities and equity of the first and third-party cell arrangements are excluded.

Compulsory margins

Life insurance companies are required to hold compulsory margins in terms of the financial soundness valuation basis prescribed in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. These margins are explicitly prescribed and held as a buffer to cover uncertainties with regard to the best-estimate assumptions used in the financial soundness valuation basis. These margins are held in the contract holder liabilities and released over time in the operating profit should experience be in line with these best-estimate assumptions.

Core headline earnings

Core headline earnings disclosed comprise operating profit and investment income on shareholder assets. It excludes net realised and fair value gains on financial assets and liabilities, investment variances and basis and other changes which can be volatile, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business.

Cost of required capital

The cost of required capital is the difference between the amount of required capital and the present value of future releases of this capital, allowing for future net of tax investment returns expected to be earned on this capital.

Covered business

Covered business is defined as long-term insurance business recognised in the group integrated report; in respect of Guardrisk, only including the South African long-term insurance business. This business covers individual smoothed bonus, linked and market-related business, reversionary bonus business, group smoothed bonus business, annuity business and other non-participating business written by the life insurance subsidiaries. International Health businesses in Africa are exposed to the underlying risk of the health schemes and are therefore also classified as covered business.

Discretionary margins

In addition to compulsory margins, insurance companies may hold further discretionary margins where the statutory actuary believes that:

- the compulsory margins are insufficient for prudent reserving; or
- company practice or policy design justifies the deferral of profits.

Discretionary participation feature (DPF)

A DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - the realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity that issues the contract.

Effective exposure

The exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account where applicable.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or liability.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

Embedded value (EV)

An EV represents the discounted value of expected after-tax future profits from the current business. The embedded value is defined as:

- the adjusted net worth of covered and non-covered business;
- plus the present value of in-force covered business less the opportunity cost of required capital;
- plus the write-up to directors' value of non-covered business.

Embedded value earnings

Embedded value earnings are defined as the change in embedded value (after non-controlling interests) for the year, after adjustment for any capital movements such as dividends paid, capital injections and cost of treasury shares acquired or disposed of for the year.

Financial soundness valuation (FSV)

The FSV basis is prescribed by SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers – and uses best estimate assumptions regarding future experience together with compulsory and discretionary margins for prudence and deferral of profit emergence. For International Financial Reporting Standards (IFRS) reporting purposes, this basis is used for the valuation of insurance contracts and investment contracts with DPF.

Fund account

The fund account is the retrospective accumulation of premiums, net of charges and benefit payments at the declared bonus rates or at the allocated rate of investment return.

JSE

The JSE Ltd.

New business profit margin

New business profit margin is defined as the value of new business expressed as a percentage of the present value of future premiums. New business profit margin is also expressed as a percentage of APE.

Non-covered business

Non-covered business includes the directors' valuations of the investment management, South African health operations, short-term insurance operations, the non-life Guardrisk entities (ie excluding Guardrisk Life Ltd), as well as other non-insurance entities. The group embedded value is also adjusted to allow for future holding company and international support expenses.

Objective evidence of impairment

Objective evidence of impairment is related to the specific circumstances of each individual asset and can be the combined effect of several events. Objective evidence includes, but is not limited to:

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as a default or delinquency in payment
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data that there is a measurable decrease in the estimated future cash flows from the asset since the initial recognition of the asset

Open-ended instruments

The open-ended category includes financial instruments with no fixed maturity date as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

Prescribed officers

Prescribed officers as referred to in the Companies Act, 71 of 2008, are defined as follows – despite not being a director of a particular company, a person is a prescribed officer of the company if that person:

- exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company; or
- regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company.

The company does not consider any employee that is not a director to be a prescribed officer as the functions of general executive control over significant portions of the business are performed by the executive directors.

Present value of future premiums (PVP)

The PVP is the present value of future premiums in respect of new business using the risk discount rate. The future premiums are net of reinsurance and are based on best-estimate assumptions such as future premium growth, mortality and withdrawal experience.

Present value of in-force covered business (VIF)

The gross VIF is the discounted present value of expected future after-tax profits as determined on the statutory basis, in respect of covered business in force at the valuation date. The net VIF is the gross VIF less the cost of required capital. No account is taken of dividend withholding tax.

Related party transactions – key management personnel

Key management personnel are those persons, including close members of their families, having authority and responsibility for planning, directing and controlling the activities of the

group, directly or indirectly, including any director (whether executive or otherwise) of the group.

Reporting basis

Reporting basis is the basis on which the financial statements are prepared.

Required capital

Required capital includes any assets attributed to covered business over and above the amount required to back covered business liabilities whose distribution to shareholders is restricted.

Return on embedded value

Return on embedded value is the embedded value earnings over the period expressed as a percentage of the embedded value at the beginning of the period, adjusted for capital movements during the year.

Risk discount rate

The risk discount rate is the rate at which future expected profits are discounted when calculating the value of in-force business or the value of new business.

Significant influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Statutory basis

The statutory basis is the valuation basis and methodology used for statutory reporting purposes, as determined by the Financial Services Board in its board notice “Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers” (or equivalent regulations in non-South African operations). These requirements are largely based on financial soundness valuation principles. A reconciliation of the statutory excess and the reporting excess is disclosed in the statement of statutory excess.

Unit-linked investments

Unit-linked investments consist of investments in collective investment schemes, private equity fund investments and other investments where the value is determined based on the value of the underlying investments.

Useful life

Useful life is the period over which an asset is expected to be available for use by the group.

Value of new business

The value of new business is the discounted present value of expected future statutory after-tax profits from new business at point of sale less the cost of required capital at risk. No allowance is made for the impact of dividend withholding tax. Allowance is made for all expenses associated with underwriting, selling, marketing and administration incurred in the effort of obtaining new business.

REPORT ON THE REVIEW OF THE REPORT ON GROUP EMBEDDED VALUE

OF MMI HOLDINGS LTD AND ITS SUBSIDIARIES TO THE DIRECTORS OF MMI HOLDINGS LTD

INTRODUCTION

We have reviewed the report on group embedded value of MMI Holdings Ltd and its subsidiaries (the group) for the year ended 30 June 2015, as set out on pages 79 to 91 (the report). This report should be read in conjunction with the audited consolidated financial statements where the policyholder liabilities are determined in terms of International Financial Reporting Standards, set out on pages 98 to 262. The report is prepared for the purpose of setting out the embedded value of the group for the year ended 30 June 2015. The directors of MMI Holdings Ltd are responsible for the preparation and presentation of the report in accordance with the basis set out on page 79 to the report and for determining that the basis of preparation is acceptable in the circumstances. Our responsibility is to express a conclusion on this report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The internally developed required capital model has not been reviewed.

CONCLUSION

Based on our review, nothing has come to our attention that led us to believe that the report is not prepared, in all material respects, in accordance with the embedded value basis set out on page 79 to the report.

BASIS OF ACCOUNTING AND RESTRICTION ON USE

Without modifying our conclusion, we draw attention to page 79 to the report, which describes the embedded value basis. The report is prepared for the purpose of disclosing the embedded value of the group as at 30 June 2015. As a result, the report may not be suitable for another purpose. Our report is intended solely for the directors of MMI Holdings Ltd and should not be used by any other parties. We agree to the publication of our report in the integrated report of MMI Holdings Ltd for the year ended 30 June 2015 provided it is clearly understood by the recipients of the integrated report that they enjoy such receipt for information only and that we accept no duty of care to them in respect of our report.



PricewaterhouseCoopers Inc.

Director: Andrew Taylor

Registered auditor

Sunninghill, 8 September 2015

DEFINITION OF EMBEDDED VALUE

The embedded value report sets out the diluted embedded value, taking into account all shares issued by MMI Holdings Ltd. This report has been prepared in accordance with the embedded value guidance from the Actuarial Society of South Africa (Advisory Practice Note 107).

An embedded value represents the discounted value of expected after-tax future profits from the current business. The embedded value is defined as:

- the adjusted net worth of covered and non-covered business;
- plus the present value of in-force covered business less the opportunity cost of required capital;
- plus the write-up to directors' value of the non-covered business.

Adjusted net worth (ANW)

The ANW is the excess of assets over liabilities on the statutory basis, but where certain deductions for disregarded assets and impairments are added back.

Required capital

Required capital includes any assets attributed to the covered business over and above the amount required to back covered business liabilities whose distribution to shareholders is restricted.

MMI Group Ltd required capital

Stochastic modelling techniques are applied on an ongoing basis to determine and confirm the most appropriate capital levels for covered business. The target is set to maintain supporting capital at such a level that will ensure, within a 95% confidence level, it will at all times cover at least a multiple of

the minimum statutory capital adequacy requirement (CAR) over the ensuing five years. The required capital supporting existing covered business excludes capital required in respect of future new business.

Other covered business

A multiple of statutory CAR has been used.

Assets backing required capital

The assumed composition of the assets backing the required capital is consistent with the long-term mandates of the shareholder assets.

Risk discount rate

The risk discount rate is the rate at which future expected profits are discounted when calculating the value of in-force business or the value of new business. The risk discount rate is determined based on the weighted average cost of capital of the company. This has taken into account the sources of capital used to fund the covered business, ie shareholder equity and subordinate debt finance. The required return on equity was derived through application of the capital asset pricing model. The cost of debt financing was based on the current financing costs.

Embedded value – Guardrisk

The South African long-term insurer, Guardrisk Life Ltd, was transferred to covered business effective 1 July 2014. This business was included as part of the non-covered directors' valuation of the broader Guardrisk business at 30 June 2014 at R368 million (adjusted net worth of R44 million and write-up of R324 million).

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2015

EMBEDDED VALUE RESULTS	2015 Rm	2014 Rm
Covered business		
Reporting excess – long-term insurance business ¹	17 465	17 392
Reclassification to non-covered business	(1 204)	(1 459)
	16 261	15 933
Disregarded assets ²	(575)	(682)
Difference between statutory and published valuation methods	(839)	(571)
Dilutory effect of subsidiaries ³	(38)	(34)
Consolidation adjustments ⁴	(5)	(77)
Value of MMI Group Ltd preference shares issued	(500)	(500)
Diluted adjusted net worth – covered business	14 304	14 069
Net value of in-force business	21 696	20 324
Diluted embedded value – covered business	36 000	34 393
Non-covered business		
Net assets – non-covered business within life insurance companies	1 204	1 459
Net assets – non-covered business outside life insurance companies	3 256	2 999
Consolidation adjustments and transfers to covered business ⁴	(3 024)	(2 291)
Adjustments for dilution ⁵	819	720
Diluted adjusted net worth – non-covered business	2 255	2 887
Write-up to directors' value	2 075	2 395
Non-covered business ¹	4 143	4 188
Holding company expenses ⁶	(1 578)	(1 383)
International holding company expenses ⁶	(490)	(410)
Diluted embedded value – non-covered business	4 330	5 282
Diluted adjusted net worth	16 559	16 956
Net value of in-force business	21 696	20 324
Write-up to directors' value	2 075	2 395
Diluted embedded value	40 330	39 675
Required capital – covered business (adjusted for qualifying debt) ⁷	7 306	7 039
Surplus capital – covered business	6 998	7 030
Diluted embedded value per share (cents)	2 514	2 474
Diluted adjusted net worth per share (cents)	1 032	1 057
Diluted number of shares in issue (million) ⁸	1 604	1 604

¹ Guardrisk Life Ltd was included as part of non-covered business at 30 June 2014 at a directors' valuation of R368 million. On 1 July 2014 Guardrisk Life Ltd was transferred to covered business (adjusted net worth of R44 million and value of in-force of R324 million).

² Disregarded assets include Sage intangible assets of R518 million (2014: R546 million), goodwill and various other items.

³ For accounting purposes, Metropolitan Health has been consolidated at 100%, while MMI Holdings Namibia, Metropolitan Kenya and Cannon have been consolidated at 96% in the statement of financial position, for the current year. For embedded value purposes, disclosed on a diluted basis, the non-controlling interests and related funding have been reinstated.

⁴ Consolidation adjustments include mainly goodwill and intangibles in subsidiaries that are eliminated.

⁵ Adjustments for dilution are made up as follows:

- Dilutory effect of subsidiaries (note 3): R103 million (2014: R102 million)
- Treasury shares held on behalf of contract holders: R424 million (2014: R305 million)
- Liability – MMI Holdings Ltd convertible preference shares issued to Kagiso Tiso Holdings: R292 million (2014: R313 million)

⁶ The holding company expenses reflect the present value of projected recurring head office expenses. The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses.

⁷ The required capital for covered business amounts to R10 604 million (2014: R10 114 million) and is adjusted for qualifying debt of R3 298 million (2014: R3 075 million).

⁸ The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

ANALYSIS OF NET VALUE OF IN-FORCE BUSINESS PER DIVISION	2015 Rm	2014 Rm
Momentum Retail	10 062	9 674
Gross value of in-force business	11 486	11 212
Less: cost of required capital	(1 424)	(1 538)
Metropolitan Retail	3 661	3 738
Gross value of in-force business	4 374	4 445
Less: cost of required capital	(713)	(707)
Momentum Employee Benefits ¹	5 200	4 242
Gross value of in-force business	5 954	4 892
Less: cost of required capital	(754)	(650)
International	2 108	1 832
Gross value of in-force business	2 310	2 006
Less: cost of required capital	(202)	(174)
Shareholder Capital	665	838
Gross value of in-force business ²	665	838
Less: cost of required capital	-	-
Net value of in-force business	21 696	20 324

¹ Guardrisk Life Ltd is included within Momentum Employee Benefits at 30 June 2015. The business was transferred effective 1 July 2014 with gross value of in-force of R348 million less cost of capital of R24 million at that date.

² The value of in-force in Shareholder Capital represents discretionary margins managed centrally by Balance Sheet Management.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2015

EMBEDDED VALUE PER DIVISION	Adjusted net worth Rm	Net value of in-force Rm	2015 Rm	2014 Rm
Covered business				
South African life licences	12 452	19 588	32 040	31 053
MMI Group Ltd	12 280	19 052	31 332	30 994
Guardrisk Life Ltd ¹	113	536	649	–
Metropolitan Odyssey Ltd	59	–	59	59
International	1 852	2 108	3 960	3 340
MMI Holdings Namibia Ltd	677	1 295	1 972	1 793
Metropolitan Life of Botswana Ltd	354	217	571	341
Metropolitan Lesotho Ltd	370	477	847	783
Other international businesses	451	119	570	423
Total covered business	14 304	21 696	36 000	34 393

	Adjusted net worth Rm	Write-up to directors' value Rm	2015 Rm	2014 Rm
Non-covered business				
Momentum Investments ²	1 007	1 158	2 165	1 928
Health businesses ³	445	1 215	1 660	1 761
Momentum Retail (Wealth) ³	344	473	817	655
Guardrisk business ^{1,3}	448	998	1 446	1 607
Momentum Short-term Insurance (MSTI)	295	82	377	319
International ^{4,5}	(532)	(273)	(805)	(386)
MMI Holdings Ltd (after consolidation adjustments) ⁵	248	(1 578)	(1 330)	(602)
Total non-covered business	2 255	2 075	4 330	5 282
Total embedded value	16 559	23 771	40 330	39 675
Diluted adjusted net worth – non-covered business	(2 255)			
Adjustments to covered business – adjusted net worth	3 161			
Reporting excess – long-term insurance business	17 465			

¹ Guardrisk Life Ltd was included as part of non-covered business at 30 June 2014 at a directors' valuation of R368 million. On 1 July 2014 Guardrisk Life Ltd was transferred to covered business (adjusted net worth of R44 million and value of in-force of R324 million).

² Momentum Investments subsidiaries are valued using forward price-earnings multiples applied to the relevant sustainable earnings bases.

³ The Health businesses, Momentum Retail (Wealth off-balance sheet) and Guardrisk are valued using embedded value methodology.

⁴ Cannon is included within International's non-covered business at 30 June 2015.

⁵ The holding company expenses reflect the present value of projected recurring head office expenses. The international holding company expenses reflect the allowance for support services to the international life assurance and health businesses.

ANALYSIS OF CHANGES IN GROUP EMBEDDED VALUE	Notes	Covered business			12 months to	12 months to
		ANW	Gross	Cost of	30.06.2015	30.06.2014
		Rm	VIF	CAR	Total EV	Total EV
		Rm	Rm	Rm	Rm	Rm
Profit from new business		(1 345)	2 615	(216)	1 054	875
Embedded value from new business	A	(1 345)	2 513	(214)	954	779
Expected return to end of period	B	–	102	(2)	100	96
Profit from existing business		4 289	(1 162)	136	3 263	3 228
Expected return – unwinding of risk discount rate	B	–	2 551	(338)	2 213	1 786
Release from the cost of required capital	C	–	–	445	445	407
Expected (or actual) net of tax profit transfer to net worth	D	4 128	(4 128)	–	–	–
Operating experience variances	E	474	261	(34)	701	544
Development expenses	F	(79)	–	–	(79)	–
Operating assumption changes	G	(234)	154	63	(17)	491
Embedded value profit from operations		2 944	1 453	(80)	4 317	4 103
Investment return on adjusted net worth	H	664	–	–	664	1 063
Investment variances	I	61	(494)	27	(406)	1 278
Economic assumption changes	J	(23)	12	69	58	(321)
Exchange rate movements		(12)	4	1	(7)	(2)
Embedded value profit – covered business		3 634	975	17	4 626	6 121
Transfer of business from/(to) non-covered business	K	202	348	(27)	523	(6)
Changes in share capital	L	143	73	(14)	202	42
Dividend paid		(3 744)	–	–	(3 744)	(3 271)
Change in embedded value – covered business		235	1 396	(24)	1 607	2 886
Non-covered business						
Change in directors' valuation and other items					(557)	718
Holding company expenses					(275)	(175)
Embedded value profit – non-covered business					(832)	543
Changes in share capital	L				(202)	(42)
Dividend paid					649	1 179
Finance costs – preference shares					(44)	(45)
Transfer of business (to)/from covered business	K				(523)	6
Change in embedded value – non-covered business					(952)	1 641
Total change in group embedded value					655	4 527
Total embedded value profit					3 794	6 664
Return on embedded value (%) – internal rate of return					9.6	19.0

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2015

A. VALUE OF NEW BUSINESS

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the financial year under review. The value of new business is also reduced by the cost of required capital for new covered business. In determining the value of new business:

- a policy is only taken into account for new business if at least one premium, that has not subsequently been refunded, is recognised in the financial statements
- premium increases that have been allowed for in the value of in-force covered business are not included as new business at inception
- the expected value of future premium increases, resulting from premium indexation on the new recurring premium business written during the financial year under review, is included in the value of new business
- only client-initiated continuations of individual policies and deferrals of retirement annuity policies after the maturity dates of contracts not previously expected in the present valuation of in-force business, are allowed for
- for employee benefit business, increases in business from new schemes or new benefits on existing schemes are included as new business, but new members or salary-related increases under existing schemes are allowed for in the value of in-force covered business
- for cell captive business, increases in business from new cells or new benefits in existing cells are included as new business; but new members or salary-related increases under existing cells are allowed for in the value of existing in-force business
- renewable recurring premiums under group insurance contracts are treated as in-force covered business

RECONCILIATION OF LUMP SUM INFLOWS	12 months to 30.06.2015 Rm	Restated 12 months to 30.06.2014 Rm
Total lump sum inflows	33 023	29 790
Inflows not included in value of new business	(8 966)	(8 670)
Term extensions on maturing policies	558	465
Retirement annuity proceeds invested in living annuities	822	–
Non-controlling interests and other adjustments	110	(17)
Single premiums included in value of new business	25 547	21 568

¹ The Metropolitan Retail APE and PVP have been changed to only reflect the initial inflows on certain early retirement annuity business (comparatives have been restated). This reduced APE by R64 million (2014: R42 million) and PVP by R635 million (2014: R424 million). This had no impact on value of new business.

VALUE OF NEW BUSINESS 12 months to 30.06.2015	Momentum Retail Rm	Metropolitan Retail¹ Rm	Momentum Employee Benefits Rm	International Rm	Total Rm
Value of new business	246	186	456	66	954
Gross	305	233	552	78	1 168
Less: cost of required capital	(59)	(47)	(96)	(12)	(214)
New business premiums	18 138	2 460	8 351	686	29 635
Recurring premiums	1 077	1 045	1 564	402	4 088
Single premiums	17 061	1 415	6 787	284	25 547
New business premiums (APE)	2 783	1 187	2 243	430	6 643
New business premiums (PVP)	22 924	5 117	20 191	2 164	50 396
Profitability of new business as a percentage of APE	8.8	15.7	20.3	15.3	14.4
Profitability of new business as a percentage of PVP	1.1	3.6	2.3	3.0	1.9

Restated 12 months to 30.06.2014	Momentum Retail Rm	Metropolitan Retail¹ Rm	Momentum Employee Benefits Rm	International Rm	Total Rm
Value of new business	240	236	254	49	779
Gross	312	276	299	61	948
Less: cost of required capital	(72)	(40)	(45)	(12)	(169)
New business premiums	15 948	2 160	6 384	541	25 033
Recurring premiums	1 022	1 083	1 033	327	3 465
Single premiums	14 926	1 077	5 351	214	21 568
New business premiums (APE)	2 515	1 191	1 568	348	5 622
New business premiums (PVP)	20 434	4 948	14 491	1 866	41 739
Profitability of new business as a percentage of APE	9.5	19.8	16.2	14.1	13.9
Profitability of new business as a percentage of PVP	1.2	4.8	1.8	2.6	1.9

¹ The Metropolitan Retail APE and PVP have been changed to only reflect the initial inflows on certain early retirement annuity business (comparatives have been restated). This reduced APE by R64 million (2014: R42 million) and PVP by R635 million (2014: R424 million). This had no impact on value of new business.

² Value of new business and new business premiums are net of non-controlling interests.

³ The value of new business has been calculated on closing assumptions. Investment yields at the point of sale have been used for fixed annuity and guaranteed endowment business, for other business the investment yields at the end of the year have been used.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2015

A. VALUE OF NEW BUSINESS *continued*

ANALYSIS OF NEW BUSINESS PREMIUMS 12 months to 30.06.2015	Momentum	Metropolitan	Momentum	International	Total
	Retail Rm	Retail ¹ Rm	Employee Benefits Rm	Rm	Rm
New business premiums	18 138	2 460	8 351	686	29 635
Recurring premiums	1 077	1 045	1 564	402	4 088
Risk	509	668	843	–	2 020
Savings/investments	568	377	721	–	1 666
International	–	–	–	402	402
Single premiums	17 061	1 415	6 787	284	25 547
Savings/investments	16 418	277	4 652	–	21 347
Annuities	643	1 138	2 135	–	3 916
International	–	–	–	284	284
New business premiums (APE)	2 783	1 187	2 243	430	6 643
Risk	509	668	843	–	2 020
Savings/investments	2 210	405	1 186	–	3 801
Annuities	64	114	214	–	392
International	–	–	–	430	430

Restated 12 months to 30.06.2014	Momentum	Metropolitan	Momentum	International	Total
	Retail Rm	Retail ¹ Rm	Employee Benefits Rm	Rm	Rm
New business premiums	15 948	2 160	6 384	541	25 033
Recurring premiums	1 022	1 083	1 033	327	3 465
Risk	501	713	408	–	1 622
Savings/investments	521	370	625	–	1 516
International	–	–	–	327	327
Single premiums	14 926	1 077	5 351	214	21 568
Savings/investments	14 130	201	4 198	–	18 529
Annuities	796	876	1 153	–	2 825
International	–	–	–	214	214
New business premiums (APE)	2 515	1 191	1 568	348	5 622
Risk	501	713	408	–	1 622
Savings/investments	1 934	390	1 045	–	3 369
Annuities	80	88	115	–	283
International	–	–	–	348	348

¹ The Metropolitan Retail APE and PVP have been changed to only reflect the initial inflows on certain early retirement annuity business (comparatives have been restated). This reduced APE by R64 million (2014: R42 million) and PVP by R635 million (2014: R424 million). This had no impact on value of new business.

Changes in bases and assumptions

The group constantly reviews its embedded value methodologies to align them with evolving practice and to ensure consistency with current practices.

Assumptions

The main assumptions used in the embedded value calculations are described below.

Principal assumptions (South Africa) ¹	2015 %	2014 %
Pre-tax investment return		
Equities	12.1	12.0
Properties	9.6	9.5
Government stock	8.6	8.5
Other fixed-interest stocks	9.1	9.0
Cash	7.6	7.5
Risk-free return ²	8.6	8.5
Risk discount rate (RDR)	10.9	10.8
Investment return (before tax) – balanced portfolio ²	10.8	10.7
Expense inflation base rate ³	6.8	6.7

¹ The principal assumptions relate only to the South African life insurance business. Assumptions relating to international life insurance businesses are based on local requirements and can differ from the South African assumptions.

² The risk-free return was determined with reference to the market interest rate on South African government bonds at the valuation date. The investment return on balanced portfolio business was calculated by applying the above returns to an expected long-term asset distribution.

³ An additional 1% expense inflation is allowed for in some divisions to reflect the impact of closed books that are in run-off.

Non-economic

The embedded value calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation.

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business excludes premium increases during the current year resulting from premium indexation arrangements in respect of in-force business, but includes the expected value of future premium increases in respect of new policies written during the current financial year.

B. EXPECTED RETURN

The expected return is determined by applying the risk discount rate applicable at the beginning of the reporting year to the present value of in-force covered business at the beginning of the reporting year and adding the expected return on new business, which is determined by applying the current risk discount rate to the value of new business from the point of sale to the end of the year.

C. RELEASE FROM THE COST OF REQUIRED CAPITAL

The release from the cost of required capital represents the difference between the risk discount rate and the expected after tax investment return on the assets backing the required capital over the year.

D. EXPECTED (OR ACTUAL) NET OF TAX PROFIT TRANSFER TO NET WORTH

The expected profit transfer for covered business from the present value of in-force to the adjusted net worth is calculated on the statutory valuation method.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2015

E. OPERATING EXPERIENCE VARIANCES

	12 months to 30.06.2015			12 months to 30.06.2014
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	76	153	229	170
Mortality and morbidity ¹	296	12	308	235
Terminations, premium cessations and policy alterations ²	(211)	129	(82)	5
Expense variance	(35)	–	(35)	43
Other	26	12	38	(113)
Metropolitan Retail	144	3	147	39
Mortality and morbidity ¹	82	10	92	108
Terminations, premium cessations and policy alterations	2	(24)	(22)	(60)
Expense variance	28	–	28	45
FNB Life – share of profits	38	–	38	30
Other	(6)	17	11	(84)
Momentum Employee Benefits	65	7	72	218
Mortality and morbidity ¹	69	6	75	60
Terminations	4	14	18	138
Expense variance	(2)	–	(2)	21
Other	(6)	(13)	(19)	(1)
International	58	61	119	102
Mortality and morbidity ¹	88	21	109	86
Terminations, premium cessations and policy alterations	(14)	3	(11)	17
Expense variance	(30)	2	(28)	6
Other ³	14	35	49	(7)
Shareholder Capital⁴	131	24	155	86
Opportunity cost of required capital	–	(21)	(21)	(71)
Total operating experience variances	474	227	701	544

¹ Overall, mortality and morbidity experience for the 12 months were better compared to what was allowed for in the valuation basis.

² Better than expected termination experience on whole life insurance contracts as well as negative persistency on investment contracts contributed to the negative termination experience.

³ Mainly contributions from Health operations.

⁴ Shareholder Capital includes mainly earnings from activities in respect of the management of MMI's capital and shareholder balance sheet risks. Other sources of earnings such as variations in actual tax payments and corporate expenses not allocated to underlying business units are also included here.

F. DEVELOPMENT EXPENSES

Business development expenses, comprising mainly middle market and other initiatives within Momentum Retail.

G. OPERATING ASSUMPTION CHANGES

	12 months to 30.06.2015			12 months to 30.06.2014
	ANW Rm	Net VIF Rm	Embedded value Rm	Embedded value Rm
Momentum Retail	(164)	147	(17)	12
Mortality and morbidity assumptions ¹	169	57	226	80
Termination assumptions	–	(37)	(37)	(51)
Renewal expense assumptions ²	(138)	59	(79)	(30)
Modelling, methodology and other changes ³	(195)	68	(127)	13
Metropolitan Retail	97	(37)	60	(129)
Mortality and morbidity assumptions ¹	75	23	98	101
Termination assumptions	43	(64)	(21)	(85)
Renewal expense assumptions ²	34	(7)	27	87
FNB Life	–	–	–	(91)
Modelling, methodology and other changes ³	(55)	11	(44)	(141)
Momentum Employee Benefits	(63)	37	(26)	461
Mortality and morbidity assumptions ⁴	(3)	(72)	(75)	(23)
Termination assumptions ⁵	–	81	81	144
Renewal expense assumptions ²	–	(101)	(101)	366
Modelling, methodology and other changes ³	(60)	129	69	(26)
International	91	(5)	86	15
Mortality and morbidity assumptions ¹	26	22	48	(7)
Termination assumptions	5	(9)	(4)	10
Renewal expense assumptions	28	(6)	22	17
Modelling, methodology and other changes ³	32	(12)	20	(5)
Shareholder Capital⁶	(195)	86	(109)	(7)
Methodology change: cost of required capital	–	(11)	(11)	139
Total operating assumption changes	(234)	217	(17)	491

¹ Allowance for better than assumed mortality experience on risk business.

² Allowance for unit costs in line with budgeted renewal expenses and expected business volumes.

³ Various modelling and methodology changes, including more explicit allowances for reinsurance modelling at Momentum Retail.

⁴ Allowance for lower future profitability on income disability and group life business.

⁵ Allowance for better than assumed termination experience on FundsAtWork business.

⁶ More explicit allowance for Balance Sheet Management future expenses and enhancements to shareholder investment assets in the cost of required capital.

REPORT ON GROUP EMBEDDED VALUE CONTINUED

AT 30 JUNE 2015

H. INVESTMENT RETURN ON ADJUSTED NET WORTH

	12 months to 30.06.2015 Rm	12 months to 30.06.2014 Rm
Investment income	618	722
Capital appreciation and other	77	368
Preference share dividends paid and change in fair value of preference shares	(31)	(27)
Investment return on adjusted net worth	664	1 063

I. INVESTMENT VARIANCES

Investment variances represent the impact of higher/lower than assumed investment returns on current and expected future after tax profits from in-force business.

J. ECONOMIC ASSUMPTION CHANGES

The economic assumption changes include the effect of the change in assumed rate of investment return, expense inflation rate and risk discount rate in respect of local and offshore business.

K. TRANSFER OF BUSINESS (TO)/FROM NON-COVERED BUSINESS

This transfer includes the transfer of Guardrisk Life Ltd to covered business (ie adjusted net asset value of R44 million and net value of in-force of R324 million at 1 July 2014) as well as the alignment of net assets and value of in-force of mainly international subsidiaries between covered and non-covered business.

L. CHANGES IN SHARE CAPITAL

Changes in share capital include the purchase of the non-controlling interest shareholding in Metropolitan Botswana and recapitalisation of some of the health entities.

SENSITIVITY OF THE IN-FORCE VALUE AND THE VALUE OF NEW BUSINESS

This section illustrates the effect of different assumptions on the adjusted net worth, the value of in-force business, the value of new business and the cost of required capital. For each sensitivity illustrated, all other assumptions have been left unchanged and, with the exception of the first two sensitivities and the “1% reduction in gross investment return, inflation rate and risk discount rate” sensitivity, the central risk discount rate has been used.

The table below shows the impact on the embedded value (adjusted net worth, value of in-force and cost of required capital) and value of new business (gross and net of the cost of required capital) of a 1% change in the risk discount rate. It also shows the impact of independent changes in a range of other experience assumptions. The effect of an equivalent improvement in these experience assumptions would be to increase the base values by a percentage approximately equal to the reductions shown below.

COVERED BUSINESS: SENSITIVITIES – 30.06.2015	In-force business				New business written		
	Adjusted net worth Rm	Net VIF Rm	Gross VIF Rm	Cost of required capital ³ Rm	Net VNB Rm	Gross VNB Rm	Cost of required capital ³ Rm
Base value	14 304	21 696	24 789	(3 093)	954	1 168	(214)
1% increase in risk discount rate		19 891	23 399	(3 508)	796	1 031	(235)
% change		(8)	(6)	13	(17)	(12)	10
1% reduction in risk discount rate		23 737	26 365	(2 628)	1 141	1 331	(190)
% change		9	6	(15)	20	14	(11)
10% decrease in future expenses		22 805	25 898	(3 093)	1 066	1 280	(214)
% change ¹		5	4	–	12	10	–
10% decrease in lapse, paid-up and surrender rates		22 505	25 622	(3 117)	1 107	1 337	(230)
% change		4	3	1	16	14	7
5% decrease in mortality and morbidity for assurance business		23 217	26 310	(3 093)	1 124	1 338	(214)
% change		7	6	–	18	15	–
5% decrease in mortality for annuity business		21 310	24 438	(3 128)	945	1 159	(214)
% change		(2)	(1)	1	(1)	(1)	–
1% reduction in gross investment return, inflation rate and risk discount rate	14 247	22 260	25 349	(3 089)	1 023	1 237	(214)
% change ²	–	3	2	–	7	6	–
1% reduction in inflation rate		22 421	25 514	(3 093)	1 043	1 257	(214)
% change		3	3	–	9	8	–
10% fall in market value of equities and properties	13 987	20 626	23 624	(2 998)			
% change	(2)	(5)	(5)	(3)			
10% reduction in premium indexation take-up rate		21 423	24 480	(3 057)	924	1 139	(215)
% change		(1)	(1)	(1)	(3)	(2)	–
10% decrease in non-commission-related acquisition expenses					1 056	1 270	(214)
% change					11	9	–
1% increase in equity/property risk premium		22 135	25 206	(3 071)	991	1 205	(214)
% change		2	2	(1)	4	3	–

¹ No corresponding changes in variable policy charges are assumed, although in practice it is likely that these will be modified according to circumstances.

² Bonus rates are assumed to change commensurately.

³ The change in the value of the cost of required capital is disclosed as nil where the sensitivity test results in an insignificant change in the value.

DIRECTORS' REPORT

The directors take pleasure in presenting their integrated report, which includes the audited financial statements of MMI Holdings Ltd (the company) and its subsidiaries (collectively MMI or the group) for the year ended 30 June 2015.

NATURE OF ACTIVITIES

MMI is a South African based financial services group that offers a comprehensive range of products and administration services, including life and short-term insurance, employee benefits, medical scheme and asset management, to clients in selected African and other countries. MMI Holdings Ltd is listed on the JSE Ltd and the Namibian Stock Exchange.

CORPORATE EVENTS

Acquisitions

On 2 October 2014, the group acquired an accounting ownership of 71% (legal ownership of 66%) of Cannon Assurance Ltd (Cannon), a composite insurer, for R308 million. The minority shareholders of Cannon also acquired a minority stake in Metropolitan Life Kenya. On 19 November 2014, the group acquired 100% of the shares in the CareCross Health Group (CareCross), a health administrator, for R300 million in cash. It includes a majority share in Occupational Care South Africa (OCSA). Refer to note 38 for more details.

Listed debt

MMI Group Ltd (MMIGL) listed new instruments to the total value of R750 million on the JSE Ltd on 1 December 2014. The instruments are unsecured subordinated callable notes. Refer to note 18 for more details. On 15 December 2014, R500 million of unsecured subordinated notes previously issued by MMIGL were redeemed. Refer to note 19 for more details.

PRESENTATION OF FINANCIAL STATEMENTS

The consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, as set out in these financial statements, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee), the Listings Requirements of the JSE Ltd and the South African Companies Act, 71 of 2008 (the Companies Act). The accounting policies of the group have been applied consistently to all years presented. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the group's accounting policies. Such judgement, assumptions and estimates are disclosed on page 122, including changes in estimates that are an integral part of the insurance business.

The current year includes Guardrisk Group (Pty) Ltd and its subsidiaries' (collectively "Guardrisk's") results for 12 months, while the prior year includes four months (3 March 2014 to 30 June 2014). The current year also includes the results from the effective date of acquisitions made during the year. Certain aspects of the group results are therefore not directly comparable.

Reclassifications

The group June 2014 results have been restated for certain reclassifications. Refer to page 103 for detail.

Segmental information

The current MMI results disclose the segmental information based on the way the business is managed and presented to the MMI Executive Committee (chief operating decision-maker).

The group operated through the following divisions: Momentum Retail; Metropolitan Retail; Momentum Employee Benefits; International; Momentum Investments; Metropolitan Health; and Shareholder Capital (which includes Momentum Short-term Insurance, the Balance Sheet Management business unit, MMI Rewards, other support services and growth initiatives).

MMI is in the process of phasing in a new client-centric operating model announced in March 2014. The disclosure in the financial statements is consistent with that of the 2014 year-end. Appropriate changes in financial reporting will be introduced as the group progresses with the operating model implementation.

CORPORATE GOVERNANCE

The board has satisfied itself that appropriate principles of corporate governance were applied throughout the year under review.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The group had no material capital commitments at 30 June 2015 other than what is disclosed in note 39. The group is party to legal proceedings in the ordinary course of business, and appropriate provisions are made when losses are expected to materialise.

RESULTS OF OPERATIONS

The operating results and the financial position of the group are reflected in the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, segmental report and the notes thereto.

Group earnings and diluted headline earnings attributable to equity holders for the year under review were R2 857 million (2014: R3 197 million) and R2 885 million (2014: R3 245 million) respectively. Group diluted core headline earnings were R3 836 million (2014: R3 621 million) and diluted core headline earnings per share 239.2 cents (2014: 225.7 cents). Refer to note 36 for a reconciliation of earnings to core headline earnings.

Diluted core headline earnings are a measure of performance that is used by MMI (in addition to earnings and headline earnings) as it is seen by the directors as an appropriate measure to monitor the group's performance. Group diluted core headline earnings for the current year, as disclosed in the segmental report, are as follows:

Analysis of diluted core headline earnings	2015		2014	
	Rm	% of total	Rm	% of total
Momentum Retail	1 531	40	1 372	38
Metropolitan Retail	738	19	587	16
Momentum Employee Benefits	660	17	516	14
International	152	4	122	3
Momentum Investments	181	5	197	6
Metropolitan Health	209	5	171	5
Shareholder Capital	365	10	656	18
Total per segmental report	3 836	100	3 621	100

SUBSIDIARIES AND ASSOCIATES

Details of significant subsidiary companies are contained in Annexure A. Details on associates are contained in note 5 and Annexure B.

SHARE CAPITAL

Share issue

During the current year 2 147 055 A3 preference shares were converted into ordinary shares. Refer to note 13 for more details. There were no share issues or share repurchases in the current year. There were no changes in the authorised or issued share capital of MMI Holdings Ltd during the prior financial year.

Share options

The group has not issued any options on MMI Holdings Ltd shares. The group awards units to employees as part of cash-settled share-based schemes – refer to note 21.2(b) for more details.

MMIGL preference shares

MMIGL has 50 000 non-redeemable, non-cumulative preference shares in issue. These shares are held by MMI Holdings Ltd. Refer to note 13.

SHAREHOLDER DIVIDEND

MMI Holdings Ltd – ordinary share dividend

The following dividends were declared during the current year:

	2015 cents per share	2014 cents per share
Interim – March	63	57
Final – September	92	85
Total	155	142
Special dividend – September		50

SHAREHOLDER DIVIDEND *continued*

MMI Holdings Ltd – ordinary share dividend *continued*

The dividend policy for ordinary listed shares, approved by the directors, is to provide shareholders with stable dividend growth, reflecting the board's long-term view on the expected underlying basic core headline earnings growth. Exceptions will be made from time to time in order to account for, inter alia, volatile investment markets, capital requirements and changes in legislation.

On 8 September 2015, a gross final dividend of 92 cents per ordinary share was declared, resulting in a total dividend of 155 cents per share. The dividend is payable out of income reserves to all holders of ordinary shares recorded in the register of the company at the close of business on Friday, 2 October 2015, and will be paid on Monday, 5 October 2015. The dividend will be subject to local dividend withholding tax at a rate of 15% unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate. This will result in a net final dividend of 78.2 cents per ordinary share for those shareholders who are not exempt from paying dividend tax.

The last day to trade cum dividend will be Friday, 25 September 2015. The shares will trade ex dividend from the start of business on Monday, 28 September 2015. Share certificates may not be dematerialised or rematerialised between Monday, 28 September 2015 and Friday, 2 October 2015, both days inclusive. The number of ordinary shares in issue at the declaration date was 1 571 950 755. MMI's income tax number is 975 2050 147.

Where applicable, dividends in respect of certificated shareholders will be transferred electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, dividend cheques will be posted to certificated shareholders on or about payment date. Shareholders who hold dematerialised shares will have their accounts with their CSDP or broker credited on the payment date.

Preference share dividends

Dividends of R21.3 million (2014: R22.8 million) (132 cents per share p.a.) were declared on the unlisted A3 MMI Holdings Ltd preference shares as determined by the company's Memorandum of Incorporation.

MMI Holdings Ltd convertible redeemable preference shares (issued to Kagiso Tiso Holdings (Pty) Ltd (KTH))

The A3 MMI Holdings Ltd preference shares are redeemable in June 2017 at a redemption value of R9.18 per share unless converted into MMI Holdings Ltd ordinary shares on a one-for-one basis prior to that date. On each of 13 November 2014 and 31 March 2015, 1.1 million preference shares were converted into ordinary shares. The ordinary shares were originally issued at a price of R10.18 per share. Refer to note 19.1 for more details. Dividends are still payable on the remaining preference shares at 132 cents per annum (payable March and September).

SHAREHOLDERS

Details of the group's shareholders are provided in the shareholder profile section of this report on page 261.

DIRECTORATE, SECRETARY AND AUDITOR

	Appointment	Resignations
Mr PE Speckmann (<i>retired</i>)		30 June 2015
Ms NDL Motsei		30 June 2015
Ms M Vilakazi	1 July 2015	
Mr SE Nxasana (<i>retired</i>)		30 September 2015

Detailed information regarding the directors and group company secretary of MMI Holdings Ltd is provided on pages 34 and 35 in the corporate governance report.

PricewaterhouseCoopers Inc. will continue in office as auditor in accordance with section 90(6) of the Companies Act.

DIRECTORS' INTEREST

Rand Merchant Insurance Holdings Ltd (RMI), of which Mr L Crouse, Mr J Burger and Mr KC Shubane are non-executive directors, has a direct holding of 24.5% in the group.

KTH, of which Mr V Nkonyeni is an executive director, had the following strategic empowerment holdings in the group at 30 June 2015:

- a 7.1% interest in MMI Holdings Ltd (32 million MMI Holdings Ltd preference shares and 82 million listed MMI Holdings Ltd ordinary shares)
- a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd
- a 21.2% interest in Eris Property Group (Pty) Ltd
- a 20% interest in Metropolitan Retirement Administrators (Pty) Ltd. The 20% interest was sold to MMI Holdings Ltd effective 1 July 2015.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings in MMI Holdings Ltd of the directors of the company at 30 June 2015 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2015 '000	Total 2014 '000
Listed				
Executive directors	64	315	379	779
Non-executive directors	142	1 932	2 074	2 146
	206	2 247	2 453	2 925

Refer to page 261 for percentage of issued shares held by directors.

All transactions in listed shares of the company involving directors were disclosed on SENS as required.

No material changes occurred between the reporting date and the date of approval of the financial statements. The detail in terms of the Listings Requirements of the JSE Ltd is set out on pages 58 and 59 in the corporate governance report.

The aggregate direct and indirect holdings of the directors in RMI Holdings Ltd shares at 30 June 2015 are set out below.

	Direct Beneficial '000	Indirect Beneficial '000	Total 2015 '000	Total 2014 '000
Listed				
Executive directors	–	–	–	72
Non-executive directors	51	1 353	1 404	1 502
	51	1 353	1 404	1 574

The above directors' effective MMI Holdings Ltd shareholding amounts to 0.02% (2014: 0.02%).

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries, with an array of notice periods ranging from four weeks to three months. There are no additional costs to the group. The aggregate remuneration of the MMI Holdings Ltd directors for the period ended 30 June 2015, is set out below. The detail in terms of the Listings Requirements of the JSE Ltd is set out on pages 52 to 61 in the corporate governance report.

	Fees R'000	Annual package R'000	Bonus ¹ R'000	Long-term incentive payments R'000	Pension fund contributions R'000	Total 2015 R'000	Total 2014 R'000
Executive	–	47 536	10 176	21 467	863	80 042	71 803
Non-executive	15 920	–	–	–	–	15 920	15 877
Total	15 920	47 536	10 176	21 467	863	95 962	87 680

¹ Bonus payments relate to the 2014 financial year's bonus.

BORROWING POWERS

In terms of the company's Memorandum of Incorporation directors have unlimited borrowing powers (subject to section 45 of the Companies Act); however, FSB approval is required for any borrowings within a life insurance company in the group.

EVENTS AFTER YEAR-END

On 8 July the group announced that it entered into an agreement with a group of key individuals from Momentum Asset Management for a management buy-out of a portion of the asset management business. This marks one of the initial steps in the implementation of MMI's client-centric outcomes-based investment model and a key empowerment initiative.

This buy-out will enable these individuals to establish a new majority black-owned and controlled asset management business, in which MMI will be a shareholder. The transaction will be financed by both MMI and the key individuals.

On 12 August 2015, MMIGL issued listed new instruments to the value of R1.25 billion on the JSE Ltd and will be redeeming R1 billion of the existing issued subordinated debt that becomes callable during September 2015. The newly issued instruments are unsecured subordinated callable notes.

Subsequent to the financial year-end, Metropolitan Health, which was party to a competitive tender process regarding the administration contracts of two existing clients, was informed that these two clients had decided not to renew these contracts. The contracts will terminate effective 1 January 2016. Management is in the process of assessing the financial impact of the loss of these contracts on the business.

No other material events occurred between the reporting date and the date of approval of the annual financial statements.

STATUTORY EXCESS

AT 30 JUNE 2015

	2015 Rm	2014 Rm
REPORTING BASIS		
Group excess per reporting basis	24 547	24 734
Net assets – other businesses	(3 256)	(2 999)
Fair value adjustments on Metropolitan business acquisition and other consolidation adjustments	(3 826)	(4 343)
Excess – long-term insurance business, net of non-controlling interests¹	17 465	17 392
Disregarded assets ²	(1 010)	(966)
Difference between statutory and published valuation methods	(839)	(571)
Write-down of subsidiaries and associates for statutory purposes	(1 210)	(1 387)
Unsecured subordinated debt	3 320	3 075
Consolidation adjustments	141	(23)
Statutory excess – long-term insurance business	17 867	17 520
Capital adequacy requirement (CAR) ³	6 639	6 221
Ratio of long-term insurance business excess to CAR (times)	2.7	2.8
Discretionary margins	13 620	14 161

¹ The long-term insurance business includes both insurance and investment contract business and is the simple aggregate of all the life insurance companies in the group, including life insurance companies in Africa; in respect of Guardrisk only including MMI's promoter exposure to the South African long-term insurance business, Guardrisk Life Ltd. It excludes the short-term insurance businesses of Guardrisk, Momentum Short-term Insurance and Cannon (Kenya) due to it being classified as non-covered, as well as the other non-life insurance entities. Guardrisk Life Ltd was transferred to covered business 1 July 2014, with a statutory excess of R44 million and capital adequacy requirement of R20 million. The figures are after non-controlling interests but excludes certain items which are eliminated on consolidation.

² Disregarded assets are those as defined in the South African Long-term Insurance Act, 52 of 1998, and are only applicable to South African long-term insurance companies. Adjustments are also made for the international insurance companies from reporting excess to statutory excess as required by their regulators. It includes Sage intangible assets of R518 million (2014: R546 million).

³ Aggregation of separate company's CARs, with no assumption of diversification benefits.

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	2015 Rm	Restated 2014 Rm	Notes
ASSETS			
Intangible assets	13 153	12 819	1
Owner-occupied properties	3 030	1 714	2
Property and equipment	353	315	3
Investment properties	7 212	7 675	4
Investments in associates	145	179	5
Employee benefit assets	408	405	21.1
Financial instruments			
Securities designated at fair value through income	365 727	334 996	6.1
Investments in associates designated at fair value through income	12 362	11 900	6.2
Derivative financial instruments	2 033	2 362	6.3
Available-for-sale	208	129	6.4
Held-to-maturity	73	100	6.5
Loans and receivables	7 855	5 586	7
Reinsurance contract assets	3 046	2 778	8
Deferred income tax	287	263	9
Properties under development	330	252	10
Insurance and other receivables	4 080	3 813	11
Current income tax assets	365	330	25.1
Cash and cash equivalents	26 174	28 875	12
Non-current assets held for sale	–	17	24
Total assets	446 841	414 508	
EQUITY			
Equity attributable to owners of the parent	24 547	24 734	
Share capital	13 804	13 791	13
Other components of equity	1 866	1 802	14
Retained earnings	8 877	9 141	
Non-controlling interests	501	480	
Total equity	25 048	25 214	
LIABILITIES			
Insurance contract liabilities			
Long-term insurance contracts	104 746	106 039	15.1
Short-term insurance contracts	6 553	5 496	15.2
Capitation contracts	30	8	15
Financial instruments			
Investment contracts	246 490	227 056	
– with discretionary participation features (DPF)	26 134	25 405	16.1
– designated at fair value through income	220 356	201 651	16.2
Designated at fair value through income	39 720	30 801	18
Derivative financial instruments	2 111	1 853	6.3
Amortised cost	1 092	1 463	19
Reinsurance contract liabilities	659	202	20
Deferred income tax	4 351	4 281	9
Employee benefit obligations	1 735	1 246	21.2
Other payables	14 062	10 437	22
Provisions	78	157	23
Current income tax liabilities	166	255	25.1
Total liabilities	421 793	389 294	
Total equity and liabilities	446 841	414 508	

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Insurance premiums	35 297	28 118	
Insurance premiums ceded to reinsurers	(7 901)	(4 980)	
Net insurance premiums	27 396	23 138	26
Fee income	7 355	6 567	27
Investment contracts	2 225	1 772	
Trust and fiduciary services	1 842	2 014	
Health administration	2 053	1 978	
Other fee income	1 235	803	
Investment income	15 559	14 043	28
Net realised and fair value gains	16 248	43 906	29
Net income	66 558	87 654	
Insurance benefits and claims	28 636	24 327	
Insurance claims recovered from reinsurers	(4 026)	(2 006)	
Net insurance benefits and claims	24 610	22 321	30
Change in actuarial liabilities and related reinsurance	(869)	7 850	
Change in long-term insurance contract liabilities	(2 069)	7 786	15.1
Change in short-term insurance contract liabilities	(139)	(72)	15.2
Change in investment contracts with DPF liabilities	728	468	16.1
Change in reinsurance assets	154	(534)	8
Change in reinsurance liabilities	457	202	20
Fair value adjustments on investment contract liabilities	16 039	32 959	16.2
Fair value adjustments on collective investment scheme liabilities	2 457	3 061	
Depreciation, amortisation and impairment expenses	1 326	1 159	31
Employee benefit expenses	5 922	5 132	32
Sales remuneration	5 071	3 899	33
Other expenses	5 806	5 035	34
Expenses	60 362	81 416	
Results of operations	6 196	6 238	
Share of profit of associates	4	2	5
Finance costs	(792)	(482)	35
Profit before tax	5 408	5 758	
Income tax expense	(2 431)	(2 458)	25.2
Earnings for year	2 977	3 300	
Attributable to:			
Owners of the parent	2 857	3 197	36
Non-controlling interests	120	103	
	2 977	3 300	
Basic earnings per ordinary share (cents)	183.5	205.5	36
Diluted earnings per ordinary share (cents)	180.5	202.4	36

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Earnings for year	2 977	3 300	
Other comprehensive income, net of tax	68	165	
Items that may subsequently be reclassified to income	6	32	
Exchange differences on translating foreign operations	1	40	14
Available-for-sale financial assets	5	(8)	14
Items that will not be reclassified to income	62	133	
Land and building revaluation	118	41	14
Change in non-distributable reserves	–	6	14
Adjustments to employee benefit funds			
Metropolitan Staff Pension Fund	–	107	14
Other	(20)	(9)	14
Income tax relating to items that will not be reclassified	(36)	(12)	14
Total comprehensive income for year	3 045	3 465	
Total comprehensive income attributable to:			
Owners of the parent	2 926	3 363	
Non-controlling interests	119	102	
	3 045	3 465	

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Share capital Rm	Share premium Rm	Other reserves Rm	Retained earnings Rm	Total attributable to owners of the parent Rm	Non-controlling interests Rm	Total equity Rm	Notes
Balance at 1 July 2013	9	13 794	1 631	8 039	23 473	391	23 864	
Total comprehensive income	–	–	166	3 197	3 363	102	3 465	
Income statement	–	–	–	3 197	3 197	103	3 300	
Other comprehensive income	–	–	166	–	166	(1)	165	
Dividend paid	–	–	–	(2 092)	(2 092)	(18)	(2 110)	
BEE cost	–	–	2	–	2	–	2	
Increase in treasury shares held on behalf of contract holders	–	(12)	–	–	(12)	–	(12)	
Transfer to other reserves from retained earnings	–	–	3	(3)	–	–	–	14
Business combinations	–	–	–	–	–	5	5	
Balance at 1 July 2014	9	13 782	1 802	9 141	24 734	480	25 214	
Total comprehensive income	–	–	69	2 857	2 926	119	3 045	
Income statement	–	–	–	2 857	2 857	120	2 977	
Other comprehensive income	–	–	69	–	69	(1)	68	
Dividend paid	–	–	–	(3 094)	(3 094)	(23)	(3 117)	
BEE cost	–	–	4	–	4	–	4	
Increase in treasury shares held on behalf of contract holders	–	(7)	–	–	(7)	–	(7)	
Transfer from other reserves to retained earnings	–	–	(9)	9	–	–	–	14
Transactions with owners ¹	–	–	–	–	–	(170)	(170)	
Transactions with non-controlling interests	–	–	–	(15)	(15)	–	(15)	
Puttable non-controlling interests ¹	–	–	–	(21)	(21)	–	(21)	
Business combinations	–	–	–	–	–	95	95	
Conversion of preference shares	–	20	–	–	20	–	20	
Balance at 30 June 2015	9	13 795	1 866	8 877	24 547	501	25 048	

¹ Non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to embedded value. In terms of IFRS, the group has recognised a financial liability (R111 million), being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries' results and de-recognised the non-controlling interest (R90 million) due to the financial liability recognised above, which is in line with its selected accounting policy.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(9 605)	(4 577)	37.1
Interest received	11 410	10 078	
Dividends received	3 193	3 118	
Income tax paid	(2 752)	(2 939)	37.2
Interest paid	(741)	(479)	37.3
Net cash inflow from operating activities	1 505	5 201	
Cash flow from investing activities			
Acquisition of subsidiaries	(745)	627	38
Disposal of non-current assets held for sale	17	663	
Transaction costs on acquisition of subsidiaries and associates	–	(25)	
Loans advanced to related parties	(4)	(102)	
Dividends from associates	1	–	
Purchase of owner-occupied properties	(9)	(4)	
Disposal of owner-occupied properties	20	–	
Purchase of property and equipment	(227)	(159)	
Disposal of property and equipment	14	11	
Purchase of intangible assets	(338)	(218)	
Net cash (outflow)/inflow from investing activities	(1 271)	793	
Cash flow from financing activities			
Finance leases repaid	(1)	(1)	
Transactions with minority shareholders	(168)	–	
Increase in other borrowings	919	3 105	
Repayment of other borrowings	(568)	(388)	
Dividends paid to equity holders	(3 094)	(2 092)	
Dividends paid to non-controlling interest shareholders	(23)	(18)	
Net cash (outflow)/inflow from financing activities	(2 935)	606	
Net cash flow	(2 701)	6 600	
Cash resources and funds on deposit at beginning	28 875	22 275	
Cash resources and funds on deposit at end	26 174	28 875	
Made up as follows:			
Cash and cash equivalents as per statement of financial position	26 174	28 875	12
	26 174	28 875	

BASIS OF PREPARATION OF THE STATEMENTS

The financial statements, as set out below, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee), the Listings Requirements of the JSE Ltd and the Companies Act, 71 of 2008. These statements have been prepared on the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

Fair value

- owner-occupied and investment properties
- investments in associates designated at fair value through income
- financial assets designated at fair value through income, derivative financial assets and available-for-sale financial assets
- investment contract liabilities designated at fair value through income, financial liabilities designated at fair value through income and derivative financial liabilities

Other measurement basis

- insurance contracts, investment contracts with discretionary participation features (DPF) and reinsurance contracts valued using the *financial soundness valuation* basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers
- short-term insurance contracts valued using Directive 169 of 2011 – Prescribed requirements for the calculation of the value of assets, liabilities and capital adequacy requirements of short-term insurers
- employee benefit obligations measured using the projected unit credit method
- investments in associates measured using the equity method of accounting or carried at fair value
- non-current assets and liabilities held for sale measured at the lower of carrying value or fair value less cost to sell

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. There are areas of complexity involving a higher degree of judgement and areas where assumptions and estimates are significant to the consolidated financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements and in a summary on page 122.

The preparation of the group's consolidated results was supervised by the group finance director, Mary Vilakazi, CA(SA) and have been audited by PricewaterhouseCoopers Inc. in compliance with the requirements of the Companies Act, 71 of 2008.

Reclassifications

The group's June 2014 results have been restated for the following reclassifications:

- Certain income and expenses of R334 million in the Shareholder Capital segment have been set off to better reflect the information used by management.
- The classification of certain financial assets has been refined in the current period, and where considered necessary, the prior year was restated. This had no change to the statement of financial position.
- Reinsurance contract liabilities of R202 million, previously shown with reinsurance contract assets, have been grossed up and disclosed separately. This restatement was deemed necessary in order to improve comparability between periods.
- Promoter cell administration expenses of R88 million, previously included in cell captive business expenses in the segment report, was reallocated to administration expenses in line with the way in which the chief operating decision-maker, being the MMI executive committee, monitors and evaluates the performance of the Momentum Employee Benefits segment.

Refer to note 52 for further details on the above restatements.

These restatements had no impact on the current or prior year reported earnings, diluted earnings or headline earnings per share, or on the net asset value or net cash flow.

Published standards, amendments and interpretations effective for June 2015 financial period

The following published standards are mandatory for the group's accounting period beginning on or after 1 July 2014 and have been implemented in accordance with the transitional provisions of these standards:

- IFRS 10, IFRS 12 and IAS 27 (amendments) – Investment entities
- IAS 19 (amendment) – Employee benefits
- IAS 32 (amendment) – Offsetting financial assets and financial liabilities
- IAS 36 (amendment) – Recoverable amount disclosures for non-financial assets
- IAS 39 (amendment) – Novation of derivatives and continuation of hedge accounting
- IFRIC 21 – Levies

Improvements project amendments

- IFRS 2 – Share-based payment (effective from annual periods beginning on or after 1 July 2014).
- IFRS 3 – Business combinations (effective from annual periods beginning on or after 1 July 2014).
- IFRS 8 – Operating segments (effective from annual periods beginning on or after 1 July 2014).

BASIS OF PREPARATION OF THE STATEMENTS

continued

Published standards, amendments and interpretations effective for June 2015 financial period *continued*

Improvements project amendments *continued*

- IFRS 13 – Fair value measurement (effective from annual periods beginning on or after 1 July 2014).
- IAS 16 – Property, plant and equipment (effective from annual periods beginning on or after 1 July 2014).
- IAS 24 – Related party disclosures (effective from annual periods beginning on or after 1 July 2014).
- IAS 38 – Intangible assets (effective from annual periods beginning on or after 1 July 2014).
- IAS 40 – Investment property (effective from annual periods beginning on or after 1 July 2014).

These amendments had no financial impact on the group's earnings or net asset value.

Standards, amendments to and interpretations of published standards that are not yet effective and have not been early adopted by the group

- IFRS 10 and IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture (effective from annual periods beginning on or after 1 January 2016).
- IFRS 10, IFRS 12 and IAS 28 Investment entities (amendments) – Applying the consolidation exception (effective from annual periods beginning on or after 1 January 2016).
- IFRS 11 (amendments) – Joint arrangements (effective from annual periods beginning on or after 1 January 2016).
- IAS 1 (amendments) – Disclosure initiative (effective from annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (amendments) – Clarification of acceptable methods of depreciation and amortisation (effective from annual periods beginning on or after 1 January 2016).
- IAS 27 (amendment) – Equity method in separate financial statements (effective from annual periods beginning on or after 1 January 2016).
- IFRS 15 – Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2017).
- IFRS 9 – Financial instruments (effective from annual periods beginning on or after 1 January 2018).

Initial high-level assessments indicate that IFRS 9 will result mainly in changes to the categories of financial assets presented in the statement of financial position, as well as causing fair value movements (relating to own credit risk) on financial liabilities designated as at fair value through income to be recorded in other comprehensive income. Management is currently assessing the impact of the above amendments in more detail.

Improvements project amendments

- IFRS 5 – Non-current assets held for sale and discontinued operations (effective from annual periods beginning on or after 1 July 2016).
- IFRS 7 – Financial instruments: disclosures (effective from annual periods beginning on or after 1 July 2016).

- IAS 19 – Employee benefits (effective from annual periods beginning on or after 1 July 2016).
- IAS 34 – Interim financial reporting (effective from annual periods beginning on or after 1 July 2016).

Management is currently assessing the impact of these improvements, but it is not expected to be significant.

Standards, amendments to and interpretations of published standards that are not yet effective and are not currently relevant to the group's operations

- IFRS 14 – Regulatory deferral accounts (effective from annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 41 (amendments) – Agriculture: bearer plants (effective from annual periods beginning on or after 1 January 2016).

CONSOLIDATION

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. All material subsidiaries have financial years ending on 30 June and are consolidated to that date. Subsidiaries with financial year-ends other than 30 June are consolidated using audited or reviewed results (where necessary) for the relevant period ended 30 June. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. Separate disclosure is made of non-controlling interests. All intra-group balances and unrealised gains and losses on transactions between group companies are eliminated. When control is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Initial measurement

The acquisition method of accounting is used to account for the acquisition of subsidiaries/business combinations by the group. The cost of a business combination is the fair value of the purchase consideration given at the date of acquisition, equity issued and liabilities assumed or incurred (including contingent liabilities). Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit and loss. Costs directly attributable to the business combination are expensed as incurred. The excess of the cost of acquisition over the fair value of the group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interest shareholders even if this results in the non-controlling interest shareholders having a deficit balance.

Subsequent measurement – MMI Holdings Ltd separate financial statements

Subsidiary companies are stated at cost less any impairment losses.

Impairment – MMI Holdings Ltd separate financial statements

The impairment of investments in subsidiary companies is assessed annually by considering the future expected cash flows or the fair value of the subsidiary.

Gains and losses on disposal

Gains and losses on disposal of subsidiaries are included in the income statement as investment income.

Transactions with non-controlling interest shareholders

Transactions with non-controlling interest shareholders are treated as transactions with equity participants of the group. Disposals to/acquisitions from non-controlling interest shareholders result in gains and losses for the group that are recorded in equity. Any difference between any consideration paid/received and the relevant share acquired/sold of the carrying value of the net assets of the subsidiary is recorded in equity.

Associates

Associates are all entities over which the group has *significant influence* but not control. The group's investment in associates includes goodwill, identified on acquisition, net of any accumulated impairment loss. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the group.

Profits and losses resulting from transactions between group companies are recognised in the group's results to the extent of the group's unrelated interests in the associates. Gains and losses arising on the dilution of investments in associates are recognised in the income statement.

Measurement

Investments in associate companies are initially recognised at cost, including goodwill, and the carrying amount is increased or decreased with the group's proportionate share of post-acquisition profits or losses, using the equity method of accounting. Under this method, the group's share of the associate's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition profit or loss and movements in other comprehensive income are adjusted against the carrying amount of the investments. The equity method is discontinued from the date that the group ceases to have *significant influence* over the associate. When *significant influence* is lost, any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement.

Investments in collective investment schemes where the group has *significant influence* are designated as investments at fair value through income and are not equity accounted where they back contract holder liabilities, based on the scope exemption in IAS 28 – Investments in associates for investment-

linked insurance funds. Initial measurement is at fair value on trade date, with subsequent measurement at fair value based on quoted repurchase prices at the close of business on the last trading day on or before the reporting date. Fair value adjustments on collective investment schemes are recognised in the income statement. The related income from these schemes is recognised as interest or dividends received, as appropriate.

Measurement – MMI Holdings Ltd separate financial statements

Associated companies are carried at cost less impairment.

Impairment

Under the equity method, the carrying value is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount. When the group's share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognised unless the group has incurred obligations or made payments on behalf of the associate. The group resumes equity accounting only after its share of the profits equals the share of losses not recognised.

FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African rand (the presentation currency), which is the functional currency of the parent.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities, measured at fair value through income, are recognised as part of their fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets are included in the fair value reserve in other comprehensive income. Translation differences on monetary items classified as available-for-sale are recognised in the income statement when incurred.

Subsidiary undertakings

Foreign entities are entities of the group that have a functional currency different from the presentation currency. Assets and liabilities of these entities are translated into the presentation currency at the rates of exchange ruling at the reporting date. Income and expenditure are translated into the presentation currency at the average rate of exchange for the year.

FOREIGN CURRENCIES *continued*

Subsidiary undertakings *continued*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in other comprehensive income. On disposal, such exchange differences are recognised in the income statement as part of net realised and fair value gains.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

All business combinations are accounted for by applying the acquisition method of accounting.

The initial cost of a business combination is adjusted if the agreement provides for adjustments to the cost that are contingent on one or more future events.

At the acquisition date, goodwill represents the excess of the cost of the business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial measurement, goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisition of subsidiaries is included in intangible assets whereas goodwill on acquisition of associates is included in investment in associates.

When the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to *cash-generating units* that are expected to benefit from the synergy of the combination in which the goodwill arose. *Cash-generating units* to which goodwill has been allocated are assessed annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. An impairment loss is recognised whenever the carrying amount of goodwill exceeds its recoverable amount, being the higher of value in use and the fair value less costs to sell. Impairment losses on goodwill are not reversed.

Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the group recognises an intangible asset representing the value of in-force business acquired (VOBA). VOBA represents the present value of future pre-tax profits

embedded in the acquired insurance or investment with DPF contract business. The VOBA is recognised gross of tax, with the deferred tax liability accounted for separately in the statement of financial position.

Measurement

The fair value calculation of VOBA on acquisition is based on actuarial principles that take into account future premium and fee income, claim outgo, mortality, morbidity and persistency probabilities together with future costs and investment returns on the underlying assets. The profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. This calculation is particularly sensitive to the assumptions regarding discount rate, future investment returns and the rate at which policies discontinue.

The asset is subsequently amortised over the expected life of the contracts as the profits of the related contracts emerge.

Impairment

VOBA is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary.

Customer relationships

Customer relationships relate to rights to receive fees for services rendered in respect of acquired investment contract business, group risk business with annually renewable contracts, administered retirement fund schemes, health administration and asset administration. An intangible asset is recognised when rights can be identified separately and measured reliably and it is probable that the cost will be recovered.

Measurement

The asset represents the group's right to benefit from the above services and is amortised on a straight-line basis over the period in which the group expects to recognise the related revenue, which is between three and 10 years.

Impairment

The right is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Deferred acquisition costs (DAC)

On long-term investment business

Incremental costs that are directly attributable to securing rights to receive fees for asset management services sold with investment contracts are recognised as an asset if they can be identified separately and measured reliably, and if it is probable that they will be recovered. The asset represents the contractual right to benefit from receiving fees for providing investment management services, and is amortised over the expected life of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period.

On short-term business

Refer to the short-term insurance contracts section of the accounting policies.

Impairment

An impairment test is conducted annually at reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Brand and broker network

Brand and broker network intangible assets have been recognised by the group as part of a business combination. The assets are recognised when they are separately identifiable, it is probable that the future economic benefits will flow to the group and the assets have a cost or value that can be measured reliably.

Measurement

The brand and broker networks are initially measured at fair value. As there is generally no active market for these intangibles, the fair value is determined with reference to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, on the basis of the best information available. In determining this amount, the group considers the outcome of recent transactions for similar assets, for example, the group applies multiples reflecting current market transactions to factors that drive the profitability of the asset (such as operating profit and *value of new business*).

Subsequently, the brand and broker networks are amortised over their expected useful lives using the straight-line method. The brands are amortised over 20 years and the broker networks over five to 20 years.

Impairment

The brand and broker networks are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, being the value in use.

Computer software

Recognition and measurement

Acquired computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected *useful life* of three to 10 years, which is assessed annually using the straight-line method.

Internally developed computer software

Costs directly associated with developing software for internal use are capitalised if the completion of the software development is technically feasible, the group has the intent and ability to complete the development and use the asset,

the asset can be reliably measured and will generate future economic benefits. Directly associated costs include employee costs of the development team and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their useful lives, up to 10 years, using the straight-line method.

Costs associated with research or maintaining computer software programmes are recognised as an expense as incurred.

Impairment

Computer software not ready for use is tested for impairment annually. Computer software in use is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell and the value in use.

OWNER-OCCUPIED PROPERTIES

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the group occupies a significant portion of the property, it is classified as an owner-occupied property.

Measurement

Owner-occupied properties are stated at revalued amounts, being fair value reflective of market conditions at the reporting date.

Fair value is determined using discounted cash flow techniques which present value the net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio.

Increases in the carrying amount arising on revaluation of buildings are credited to a land and building revaluation reserve in other comprehensive income. Decreases that offset previous increases in respect of the same asset are charged against the revaluation reserve, and all other decreases are charged to the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Owner-occupied property buildings are depreciated on a straight-line basis, over 50 years, to allocate their revalued amounts less their residual values over their estimated useful lives. Property and equipment related to the buildings are depreciated over five to 20 years. Land is not depreciated. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

OWNER-OCCUPIED PROPERTIES *continued*

Depreciation *continued*

Accumulated depreciation relating to these properties is eliminated against the gross carrying amount of the properties and the net amount is restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and the amount which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Gains and losses

When owner-occupied properties are sold, the amounts included in the land and buildings revaluation reserve are transferred to retained earnings.

PROPERTY AND EQUIPMENT

Improvements to leasehold properties

Measurement

Improvements to leasehold properties are measured at cost and depreciated over the shorter of their respective lease periods and estimated useful lives.

Impairment

Improvements to leasehold properties are reviewed for impairment losses whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the cost of the asset capitalised to date exceeds the recoverable amount.

Equipment

Measurement

Equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

All assets are depreciated using the straight-line method to allocate their costs, less their residual values, over their estimated useful lives, as follows:

Furniture and fittings	3 – 5 years
Computer equipment	3 years
Motor vehicles	5 years

The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

Gains and losses

Gains and losses on disposal of assets are determined by comparing proceeds with carrying amounts and are included in the income statement in the year of disposal.

Impairment

Equipment is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised immediately for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell of the asset and its value in use.

INVESTMENT PROPERTIES

Completed properties

Investment properties are held to earn rentals or for capital appreciation or both and are not significantly occupied by the companies of the group.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date, less the related cumulative accelerated rental income receivable. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. All properties are internally valued on an annual basis and where considered necessary, significant properties are valued externally by an independent valuator, at least in a three-year cycle, to confirm the fair value of the portfolio. The accelerated rental income receivable represents the cumulative difference between rental income on a straight-line basis and the accrual basis (refer to rental income accounting policy). Subsequent expenditure is charged to the asset's carrying value only when it is probable that the future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investment properties that are being redeveloped for continuing use as investment property, or for which the market has become less active, continue to be measured at fair value.

Undeveloped land is valued at fair value based on recent market activity in the area.

Transfers to and from investment properties

If an investment property becomes owner-occupied, it is reclassified under owner-occupied properties, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes, and vice versa.

Properties held under operating leases

Properties held under operating leases are classified as investment properties as long as they are held for long-term rental yields and not occupied by the group. The initial cost of these properties is the lower of the fair value of the property

and the present value of the minimum lease payments. These properties are carried at fair value after initial recognition.

Gains and losses

Unrealised gains or losses arising on the valuation or disposal of investment properties are included in the income statement in net realised and fair value gains and losses. These fair value gains and losses are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

FINANCIAL ASSETS

Classification

The group classifies its financial assets into the following categories:

- financial assets at fair value through income, including derivative financial instruments
- loans and receivables
- held-to-maturity financial assets
- available-for-sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- **Financial assets at fair value through income**

This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception.

A financial asset is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

Financial assets are designated at fair value through income at inception if they are:

- held to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets, thereby eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
- managed, with their performance being evaluated on a fair value basis, in accordance with portfolio mandates that specify the investment strategy; or
- significant embedded derivatives that clearly require bifurcation.

These assets are initially recognised at fair value and transaction costs directly attributable to acquiring them are expensed in the income statement in net realised and fair value gains. Subsequent fair value adjustments are recognised in the income statement.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held for

trading and those designated at fair value through income or available-for-sale assets.

- **Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that management of the group has the positive intention and ability to hold to maturity.

- **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Recognition and measurement

A financial asset is recognised in the statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the financial assets. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Financial assets at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are recognised initially at fair value and subsequently carried at amortised cost, using the *effective interest rate method* less provision for impairment.

The fair value of financial assets traded in active markets is based on quoted market prices at the reporting date. Collective investments are valued at their repurchase price. For unlisted equity and debt securities, unquoted unit-linked investments and financial assets where the market is not active, the group establishes fair value by using valuation techniques disclosed in note 51. These include discounted cash flow analysis and adjusted price-earnings ratios allowing for the credit risk of the counterparty. Unquoted securities are valued at the end of every reporting period.

Impairment of financial assets

- **Financial assets carried at fair value – available-for-sale Equity investments**

At each reporting date the group assesses whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost in the case of equity investments classified as available-for-sale. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit and loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments recognised in the income statement are not subsequently reversed in the income statement.

FINANCIAL ASSETS *continued*

Impairment of financial assets *continued*

- Financial assets carried at fair value – available-for-sale *continued*

Debt securities

For debt securities, the group uses the criteria referred to under loans and receivables below. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the income statement.

- Loans and receivables

A provision for loans and receivables is established when there is *objective evidence* that the group will not be able to collect all amounts due according to the original terms of the assets concerned. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original *effective interest rate*. The movement in the current year provision is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or has been transferred, and the group has transferred substantially all risks and rewards of ownership. The group also derecognises a financial asset when the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Realised and unrealised gains and losses

Financial assets at fair value through income

Realised and unrealised gains and losses arising from changes in the value of financial assets at fair value through income are included in the income statement in the period in which they arise. Interest and dividend income arising on financial assets are disclosed separately under investment income in the income statement.

Available-for-sale assets

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When these assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised and fair value gains or losses. Interest and dividend income arising on these assets are

recognised and disclosed separately under investment income in the income statement.

Changes in the fair value of equity securities denominated in a foreign currency and classified as available-for-sale are recognised in other comprehensive income. Changes in the fair value of debt securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences resulting from changes in the amortised cost are recognised in the income statement; translation differences resulting from other changes are recognised in other comprehensive income.

Offsetting

Financial assets and liabilities are set off and the net balance reported in the statement of financial position where there is a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability is the same, and where the financial asset and liability are denominated in the same currency.

Scrip lending

The equities or bonds on loan, and not the collateral security, are reflected in the statement of financial position of the group at year-end. Scrip lending fees received are included under fee income. The group continues to recognise the related income on the equities and bonds on loan. Collateral held is not recognised in the financial statements unless the risks and rewards relating to the asset have passed to the group. If the asset is sold, the gain or loss is included in the income statement.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging), or is based on a valuation technique whose variables include only observable market data.

When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation model is not recognised immediately in the income statement but over the life of the transaction on

an appropriate basis, or when the input becomes observable, or when the derivative matures or is closed out.

The subsequent fair value of exchange-traded derivatives is based on a bid-ask spread while the value of over-the-counter derivatives is determined by using valuation techniques that incorporate all factors that market participants would consider in setting the price.

Embedded derivatives are separated and fair-valued through income when they are not closely related to their host contracts and meet the definition of a derivative, or where the host contract is not carried at fair value.

The group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps is recognised in the income statement within interest income or finance costs. Both effective changes in fair value of currency futures and the gain or loss relating to the ineffective portion are recognised in the income statement within net realised and fair value gains and losses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within net realised and fair value gains and losses.

Amounts accumulated in equity are recycled to income in the periods in which the hedged item (forecasted transaction or a firm commitment) affects the income statement (for example, when the hedged forecast transaction takes place). However, when the hedged forecast transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement within net realised and fair value gains and losses.

PROPERTIES UNDER DEVELOPMENT

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and functions, or their ultimate purpose or use.

Where the group constructs or develops property on behalf of third parties it acts as agent, and the commission rather than the gross revenue is recorded as revenue.

Where the group acquires, constructs or develops property intended for sale in the ordinary course of business, it is shown as property developed for subsequent sale. The property is initially recorded at cost comprising design costs, raw materials, direct labour and other direct costs. Subsequently, the property is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete redevelopment and selling expenses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at cost, which approximates fair value. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of change in value. Bank balances held to meet short-term cash commitments are included in funds on deposit and other money market instruments with a maturity of three months or less. Operating bank balances are included in bank and other cash balances.

SHARE CAPITAL

Share capital is classified as equity where the group has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity. Preference shares issued by the group are classified as equity when there is no obligation to transfer cash or other assets to the preference shareholders. The dividends on these preference shares are recognised in the statement of changes in equity. For compound instruments, eg convertible redeemable preference shares, the component representing the value of the conversion option at the time of issue is included in equity.

SHARE CAPITAL *continued*

Issue costs

Incremental external costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax, from the proceeds.

Treasury shares

Treasury shares are equity share capital of the holding company held by subsidiaries, consolidated collective investment schemes and share trusts, irrespective of whether they are held in shareholder or contract holder portfolios. The consideration paid, including any directly attributable costs, is eliminated from shareholder equity on consolidation until the shares are cancelled or reissued. The consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects on the subsequent sale, is included in equity.

COMPOUND FINANCIAL INSTRUMENTS

Compound financial instruments issued by the group comprise convertible preference shares that can be converted to ordinary share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the *effective interest rate method*. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

DIVIDENDS PAID

Dividends paid to shareholders of the company are recognised on declaration date.

PUTTABLE NON-CONTROLLING INTERESTS

Puttable non-controlling interests represent put options granted to non-controlling interests of subsidiaries, entitling the non-controlling interests to dispose of their interest in the subsidiaries to the group at contracted dates.

Recognition and measurement

A financial liability at fair value through income is recognised, being the present value of the estimated purchase price value discounted from the expected option exercise date to the reporting date. In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings.

The estimated purchase price is reconsidered at each reporting date and any change in the value of the liability is recorded in net realised and fair value gains in the income statement. Interest in respect of this liability is calculated using the *effective interest rate method* and recorded within finance costs.

LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS

The contracts issued by the group transfer insurance risk, financial risk or both. As a result of the different risks transferred by contracts, contracts are separated into investment and insurance contracts for the purposes of valuation and profit recognition. Insurance contracts are those contracts that transfer significant insurance risk to the group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime. There is one exception to this principle:

- If the terms of an investment contract change significantly, the original contract is derecognised and a new contract is recognised with the new classification.

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

For *cell captive* business, contracts that transfer financial risk with no significant insurance risk are accounted for as financial instruments (investment contracts designated at fair value through income) eg first-party cells. For these arrangements, only fee income, investment income and net realised and fair value gains are included in the group's income statement. On the statement of financial position, premium debtors and insurance liabilities relating to these arrangements are excluded.

Insurance contracts

Insurance contracts are those under which the group accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.

Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance risk is deemed significant if an insured event could cause an insurer to pay benefits (net of accumulated income and account balances) on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

For *cell captive* business, insurance policies are issued in third-party *cell captive* structures or contingency policies. The company also accepts insurance and reinsurance inwards risks directly, eg where the promoter cell shares in the underwriting experience of selected call arrangements. All items relating to these arrangements are included in the group's income statement and statement of financial position, except for contract management fees.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Contracts with discretionary participation features

The group issues long-term insurance and investment contracts containing *discretionary participation features* (DPF). These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as long-term insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

Long-term insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to long-term insurance contracts and investment contracts with DPF are measured in accordance with the *financial soundness valuation* (FSV) basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. The FSV basis is based on best estimate assumptions regarding future experience plus *compulsory margins* and additional *discretionary margins* for prudence and deferral of profit emergence.

Assumptions used in the valuation basis are reviewed at least annually and any changes in estimates are reflected in the income statement as they occur.

The valuation bases used for the major classes of contract liabilities, before the addition of the margins described under the heading of *compulsory and discretionary margins* below, were as follows:

- For group smoothed bonus business, the liability is taken as the sum of the *fund accounts*, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For individual smoothed bonus business, the liability is taken as the sum of the *fund accounts* less the present value of future charges not required for risk benefits and expenses.
- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.
- For the above three classes of business, *bonus stabilisation accounts* (BSAs) are held in addition to the liabilities described above. In the case of smoothed bonus business, the BSA is equal to the difference between the market value of the underlying assets and the *fund accounts*. In the case of with-profit annuity business, the BSA is equal to the difference between the market value of the underlying

assets and the discounted value of projected future benefit payments and expenses. BSAs are included in contract holder liabilities.

- For conventional with-profit business, the liability is the present value of benefits less premiums, where the level of benefits is set to that supportable by the asset share.
- For individual market-related business, the liability is taken as the fair value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For group risk business, liabilities are held to reflect claims incurred but not reported (IBNR).
- For conventional non-profit business, including non-profit annuities and guaranteed endowment business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- A number of contracts contain embedded derivatives in the form of financial options and investment guarantees. Liabilities in respect of these derivatives are fair-valued in accordance with the guidelines in APN 110 – Allowance for embedded investment derivatives. Stochastic models are used to determine a best estimate of the time value as well as the intrinsic value of these derivatives.
- Provision is made for the estimated cost of IBNR claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or else as percentages of premium, based on historical experience. Outstanding reported claims are disclosed in other payables.

Where contract holders are entitled to a partial surrender in respect of certain policies, any partial surrender is recorded as a surrender claim in the income statement and the contract holder liability is therefore reduced.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit *compulsory margins* as required by SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. *Discretionary margins* are held in addition to the *compulsory margins*. These *discretionary margins* are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design, and in line with the risks borne by the group.

The main *discretionary margins* utilised in the valuation are as follows:

- Additional bonus stabilisation accounts are held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.
- For certain books of business which are ring-fenced per historic merger or take-over arrangements, appropriate liabilities are held to ensure appropriate capitalisation of future profits in line with the terms of the related agreements.

LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Long-term insurance contracts and investment contracts with DPF *continued*

Compulsory and discretionary margins *continued*

- An additional margin is held to reduce the risk of future losses caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and utilised if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of premium and decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the group.
- Future charges arising from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the reporting date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Explicit liabilities are set aside for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.
- For *cell captive* business, the tax charged to each cell does not always equal the total tax liability of the company since certain cells have calculated tax losses. Instead of crediting the cells with the resulting tax asset, the tax assets are accumulated in a separate cell, and notionally allocated to their respective cells. The amount in this cell is raised as a discretionary margin. In the event that a cell with a tax asset is able to utilise that asset against a future tax liability, the tax asset will be reduced or eliminated accordingly.

Embedded derivatives

The group does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value, in accordance with APN 110, if they are not closely related to the host insurance contract but meet the definition of a derivative. Embedded derivatives that are separated from the host contract are carried at fair value through income.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate for each insurance portfolio, the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present VOBA, is adequate in relation to the best-estimate future cash flow liabilities. Best-estimate liabilities are based on best-estimate assumptions

in accordance with the FSV basis, but excluding *compulsory margins* as described in SAP 104 as well as all *discretionary margins*. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the group is entitled under reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each contract.

Reinsurance liabilities are amounts payable in terms of reinsurance agreements.

There are three types of reinsurance liabilities:

- The first consists of reinsurance liabilities which are payable to registered reinsurers, in terms of a reinsurance agreement and include premiums payable for reinsurance contracts which are recognised as an expense when due. These premiums are included in other payables.
- The second type consists of reinsurance contracts which the group has with third-party cell owners. The agreements in place with these cell owners are such that the cell owner acts as reinsurer to the group for the business which the cell brings to the group. The risks and rewards of insurance policies relating to these cells are passed on to the cell owner, and the group retains no insurance risk relating to these policies on a net basis. The group therefore has an obligation to pay the net results relating to the insurance business in the cell to the cell owner as a result of these agreements. This obligation is deemed to be a reinsurance arrangement and is disclosed as part of insurance contract liabilities.
- The third type consists of a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provides upfront funding to a cell within the group, with the cell then repaying this funding over an agreed term. The liability associated with this repayment is disclosed as part of reinsurance contract liabilities and is valued consistently with the discounted cash flow approach used for insurance contract liabilities.

Impairment of reinsurance assets

If there is *objective evidence* that a reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The impairment loss is calculated using the same method as that adopted for loans and receivables.

Long-term insurance premiums

Insurance premiums and annuity considerations receivable from long-term insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Where annual premiums are paid in instalments, the outstanding balance of these premiums is recognised when due. Receivables arising from insurance and investment contracts with DPF are recognised under insurance and other receivables.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Long-term insurance benefits and claims

Insurance benefits and claims relating to long-term insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement based on the estimated liability for compensation owed to the contract holder. Death, disability and surrender claims are recognised when incurred. These claims also include claim events that occurred before the reporting date but have not been fully processed. Claims in the process of settlement are recognised in other payables in the statement of financial position. Maturity and annuity claims are recognised when they are due for payment. Outstanding claims are recognised in accounts payable. Contingency policy bonuses are included in claims in the income statement.

Reinsurance recoveries

Reinsurance recoveries are accounted for in the same period as the related claim.

Acquisition costs

Acquisition costs, disclosed as sales remuneration, consist of commission payable on long-term insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the group's contribution to their retirement and medical aid funds). These costs are expensed when incurred. The FSV basis makes implicit allowance for the recoupment of acquisition costs; therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

Capitation contracts

The group enters into *capitation contracts* with medical schemes. These contracts are short-term health benefit insurance contracts.

Measurement

The liability for *capitation contracts* comprises provisions for the group's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date and related internal and external claims-handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the membership profile according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision. The group does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event.

Capitation premiums

Capitation premiums are received monthly, based on participating client scheme membership. Capitation premium income is earned from the date of attachment of risk over the indemnity period, on an accrual basis.

Capitation benefits incurred

Gross capitation benefits incurred are the total estimated cost of all claims arising from the healthcare events that occurred in the year and for which the group is responsible, whether or not reported by the end of the year. These claims include participating client scheme member medical claims, including hospital, primary care and chronic medication expenses.

Capitation benefits incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from covered members for co-payments and savings plan accounts; and
- claims for services rendered during the previous year not included in the outstanding claims provisions for that year, net of balances in savings plan accounts and recoveries from covered members for co-payments.

Investment contracts

The group designates investment contract liabilities at fair value through income upon initial recognition as their fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment properties that are designated at inception as fair value through income. The group follows this approach because it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Measurement

The group issues investment contracts without fixed terms and contracts with fixed terms and guaranteed terms.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through income.

For investment contracts without fixed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the group's unitised investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.

A financial liability is recognised in the statement of financial position when, and only when, the group becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value.

LONG AND SHORT-TERM INSURANCE AND INVESTMENT CONTRACTS *continued*

Investment contracts *continued*

Measurement *continued*

The fair value of financial liabilities is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This deferred profit liability is recognised in profit or loss over the life of the contract based on factors relevant to a market participant, including the passing of time.

For investment contracts where investment management services are rendered and the contracts provide for minimum investment return guarantees, provision is made for the fair value of the embedded option within the investment contract liability. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

Deferred revenue liability (DRL)

A DRL is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

Deferred acquisition costs

Refer to the intangible assets section of the accounting policies.

Amounts received and claims incurred

Premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

Short-term insurance contracts

Premiums

Short-term insurance premiums are accounted for when receivable, net of a provision for unearned premiums relating to risk periods that extend to the following year.

Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Outstanding claims comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Estimates are calculated based

on the most recent cost experience of similar claims and include an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries.

Unearned premium provision

The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Liability adequacy test

A liability adequacy test is performed annually for the gross liability recognised for insurance contracts and an unexpired risk provision is recognised for any deficiencies arising when unearned premiums are insufficient to meet expected future claims and expenses after taking into account future investment returns on the investments supporting the unearned premium provision. The expected claims are calculated having regard to events that have occurred prior to the reporting date.

Deferred acquisition costs

Acquisition costs comprise all costs arising from the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the portion of direct acquisition costs (ie commission) which is deferred and amortised over the term of the contracts as the related services are rendered and revenue recognised.

Outstanding insurance contract claims

Provision is made using prescribed methods set out in Directive 169 of 2011:

- for claims notified but not settled at year-end, using case estimates determined on a claim-by-claim basis; and
- for claims incurred at year-end but not reported until after that date (IBNR), using the prescribed percentages specified by class of business and development period as set out in Directive 169.

FINANCIAL LIABILITIES

Recognition and measurement

The group classifies its financial liabilities into the following categories:

- financial liabilities at fair value through income
- financial liabilities at amortised cost

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition.

- **Financial liabilities at fair value through income**

This category has two sub-categories: financial liabilities held for trading and those designated at fair value through income at inception.

A financial liability is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

Financial liabilities are designated at fair value through income at inception if they are:

- eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
- managed, with their performance being evaluated on a fair value basis; or
- significant embedded derivatives that clearly require bifurcation.

A financial liability is recognised in the statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

Issues and settlements of financial liabilities are recognised on trade date, being the date on which the group commits to issuing or settling the financial liabilities.

The fair value of financial liabilities quoted in active markets is based on current market prices. Alternatively, where an active market does not exist, fair value is derived from cash flow models or other appropriate valuation models allowing for the group's own credit risk. These include the use of arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, making maximum use of market input and relying as little as possible on entity-specific input.

Financial liabilities are derecognised when they are extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities designated at fair value through income

Financial liabilities designated at fair value through income, such as callable notes which are listed on the JSE interest rate market, *carry positions* (refer below), preference shares and collective investment schemes liabilities (representing the units in collective investment schemes where the group consolidates the collective investment schemes and is required to disclose the value of the units not held by the group as liabilities) are recognised initially at fair value, with transaction costs being expensed in the income statement, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the value of financial liabilities at fair value through income are included in the income statement in the period in which they arise. Interest on the callable notes, *carry positions* and preference shares are disclosed separately as finance costs using the *effective interest rate method*.

Carry positions

Carry positions consist of sale and repurchase of assets agreements. These agreements contain the following instruments:

- Repurchase agreements: financial liabilities consisting of financial instruments sold with an agreement to repurchase these instruments at a fixed price at a later date. These financial liabilities are classified as financial liabilities designated at fair value through income.

- Reverse repurchase agreements: financial assets consisting of financial instruments purchased with an agreement to sell these instruments at a fixed price at a later date. These financial assets are classified as financial instruments designated at fair value through income.

Where financial instruments are sold subject to a commitment to repurchase them, the financial instrument is not derecognised and remains in the statement of financial position and is valued according to the group's accounting policy relevant to that category of financial instrument. The proceeds received are recorded as a liability (*carry positions*) carried at fair value where they are managed on a fair value basis.

Conversely, where the group purchases financial instruments subject to a commitment to resell these at a future date and the risk of ownership does not pass to the group, the consideration paid is included under financial assets carried at fair value where they are managed on a fair value basis.

The difference between the sale and repurchase price is treated as finance cost and is accrued over the life of the agreement using the *effective interest rate method*.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred. These financial liabilities are then subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the liability using the *effective interest rate method*.

Convertible redeemable preference shares and convertible bonds

At initial recognition, the fair value of the liability component of the convertible redeemable preference shares or convertible bonds is determined by discounting the net present value of future cash flows, net of transaction costs, at market rate at inception for a similar instrument without the conversion option. This amount is recorded as a liability on the amortised cost basis, using the *effective interest rate method*, until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder equity. The value of the equity component is not changed in subsequent periods. The dividends on these preference shares are recognised in the income statement in finance costs.

Subordinated redeemable debentures

These debentures are recognised initially at fair value, net of transaction costs incurred. The debentures are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the debentures, using the *effective interest rate method*. The interest on these redeemable debentures are recognised in the income statement in finance costs.

Accounts payable

Accounts payable are initially carried at fair value and subsequently at amortised cost using the *effective interest rate method*.

DEFERRED INCOME TAX

Measurement

Deferred income tax is provided for in full, at current tax rates and in terms of laws substantively enacted at the reporting date in respect of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets, including tax on capital gains, are recognised for tax losses and unused tax credits and are carried forward only to the extent that realisation of the related future tax benefit is probable.

Deferred income tax is provided for in respect of temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale financial assets and cash flow hedges, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred taxation is provided at the capital gains effective rate, as it is assumed that the carrying value will be recovered through sale.

Offsetting

Deferred tax assets and liabilities are set off when the income tax relates to the same fiscal authority and where there is a legal right of offset at settlement in the same taxable entity.

CURRENT TAXATION

Measurement

Current tax is provided for at the amount expected to be paid, using the tax rates and in respect of laws that have been substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Individual policyholder tax and corporate policyholder tax is included in tax on contract holder funds in the income statement.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 15% of the dividend

received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

INDIRECT TAXATION

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional service levies. Indirect taxes are disclosed as part of operating expenses in the income statement.

LEASES: ACCOUNTING BY LESSEE

Finance leases

Leases of property and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the group are classified as finance leases.

Measurement

- **Asset**
Finance leases (including direct costs) are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the *useful life* of the asset or the lease term.
- **Liability**
The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

Leases where substantially all the risks and rewards incidental to ownership have not been transferred to the group are classified as operating leases. Payments made are charged to the income statement on a straight-line basis over the period of the lease. The group recognises any penalty payment to the lessor for early termination of an operating lease as an expense in the period in which the termination takes place.

LEASES: ACCOUNTING BY LESSOR

Operating leases

When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

PROVISIONS

Provisions are recognised when, as a result of past events, the group has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to

settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

Onerous contracts

The group recognises a provision for an onerous contract, except on insurance contracts, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

CONTINGENT LIABILITIES

Contingent liabilities are reflected when the group has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or it is possible but not probable that an outflow of resources will be required to settle a present obligation, or the amount of the obligation cannot be measured with sufficient reliability.

EMPLOYEE BENEFITS

Pension and provident fund obligations

The group provides defined benefit pension schemes as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

- **Defined contribution funds**

A defined contribution scheme is a fund under which the group pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The group's contributions are charged to the income statement when incurred, except those contributions subsidised by a surplus amount.

- **Defined benefit funds**

A defined benefit scheme is a fund that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated annually, using the projected unit credit method.

Measurement

The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in other comprehensive income as and when they arise. Actuarial gains and losses can occur as a result of changes in the value of liabilities (caused by changes in the discount rate used, expected salaries or number of employees, life expectancy of employees and expected inflation rates) and changes in the fair value of plan assets (caused as a result of the difference between the actual and expected return on plan assets).

Past-service costs are recognised immediately in the income statement.

An accounting surplus may arise when the present value of the defined benefit obligation less the fair value of plan assets yields a debit balance. In such circumstances, the debit balance recognised as an asset in the group's statement of financial position cannot exceed the present value of any economic benefits available to the group in the form of refunds or reductions in future contributions. In determining the extent to which economic benefits are available to the group the rules of the fund are considered.

Post-retirement medical aid obligations

The group provides a subsidy in respect of medical aid contributions on behalf of qualifying employees and retired personnel. An employee benefit obligation is recognised for these expected future medical aid contributions. This obligation is calculated using the projected unit credit method, actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term rate of investment return, as well as taking into account estimated contribution increases. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension schemes. The actuarial gains and losses are recognised as they arise. The increase or decrease in the employee benefit obligation for these costs is charged to other comprehensive income.

Termination benefits

The group recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination. Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises

EMPLOYEE BENEFITS *continued*

Termination benefits *continued*

costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Leave pay liability

The group recognises a liability for the amount of accumulated leave if the group has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Bonus plans

The group pays performance bonuses to senior employees of the group and thirteenth cheque bonuses to certain staff members. Performance bonuses are based on certain objectives, taking into account past business experience and future strategic issues, agreed upon by the board of directors of the holding company. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The group operates cash-settled share-based compensation plans. For share-based payment transactions that are settled in cash where the amount is based on the equity of the parent or another group company, the group measures the goods or services received as cash-settled share-based payment transactions by assessing the nature of the awards and its own rights and obligations.

Cash-settled compensation plans

The group recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to the liability.

Compensation plans valued on the projected unit credit method

The group has certain schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the group recognises a liability that has been measured with reference to a selling price formula in a contract, the share price of an external company or the applicable *embedded value* of a subsidiary company, and that will be used to settle

the liability with the employees or to repurchase shares in a subsidiary from the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the income statement over the vesting period of the shares.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the group's primary business being the provision of insurance and investment products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non-current assets and disposal groups held for sale will be reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

INCOME RECOGNITION

Income comprises the fair value of services, net of value added tax, after eliminating income from within the group. Income is recognised as follows:

Fee income

Fees received on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income as the services are provided over the expected duration of the contract, as a constant percentage of expected gross profit margins. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and released on a straight-line basis over the lives of the contracts.

Front-end fees

Front-end fees are deferred and released to income when the services are rendered over the expected term of the contract on a straight-line basis.

Trust and fiduciary fees received

Fees received from asset management, retirement fund administration and other related administration services offered by the group are recognised in the accounting period in which the services are rendered. Where initial fees are received, these are deferred and recognised over the average period of the contract. This period is reassessed annually.

Health administration fee income

Fees received from the administration of health schemes are recognised in the accounting period in which the services are rendered.

Other fee income

Administration fees received and multiply fee income are recognised as the service is rendered.

Cell captive fee income includes management fees. Management fees are negotiated with each cell shareholder and are generally calculated as a percentage of premiums received and/or as a percentage of assets. Income is brought to account on the effective commencement or renewal dates of the policies. A portion of the income is deferred to cover the expected servicing costs, together with a reasonable profit thereon and is recognised as a liability. The deferred income is brought to account over the servicing period on a consistent basis reflecting the pattern of servicing activities.

Other fees received include scrip lending fees (which are based on rates determined per contract) and policy administration fees that are also recognised as the service is rendered.

Investment income

Interest income

Interest income is recognised in the income statement, using the *effective interest rate method* and taking into account the expected timing and amount of cash flows. Interest income includes the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

Dividend income

Dividends received are recognised when the right to receive payment is established. Where it is declared out of retained earnings, dividend income includes scrip dividends received, irrespective of whether shares or cash is elected. Dividend income is not recognised when shares of the investee are received and the shareholders receive a pro rata number of shares, there is no change in economic interest of any investor and as no economic benefit is associated with the transaction.

Rental income

Rental income is recognised on the straight-line method over the term of the rental agreement.

EXPENSE RECOGNITION

Expenses

Other expenses include auditors' remuneration, consulting fees, direct property expenses, information technology expenses, marketing costs, indirect taxes and other expenses not separately disclosed, and are expensed as incurred.

Finance costs

Finance costs are recognised in the income statement, using the *effective interest rate method*, and taking into account the expected timing and amount of cash flows. Finance costs include the amortisation of any discounts or premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on the *effective interest rate method*.

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the MMI executive committee that makes strategic decisions. Refer to segmental report for more details.

CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared on the going concern basis of accounting. The statement of financial position is presented based on liquidity. The income statement is presented on the nature of expense method; however, sales remuneration is separately disclosed. In the statement of cash flows, the cash flows from operating activities are reported on the indirect method. The consolidated financial statements are presented in South African rand, which is the functional currency of the parent.

APPLICATION OF ACCOUNTING POLICIES

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the assets and liabilities of the group. Management applies judgement in determining best estimates of future experience. Judgements are based on historical experience and management's best-estimate expectations of future events, taking into account changes experienced historically. Estimates and assumptions are regularly updated to reflect actual experience. Actual experience in future financial years can be materially different

from the current assumptions and judgements and could require adjustments to the carrying values of the affected assets and liabilities. The critical estimates and judgements made in applying the group's accounting policies are detailed in the notes to the annual financial statements, as listed below:

- Assessment of control over collective investment schemes: As a result of the adoption of IFRS 10 the group considers control over the fund manager to be a key aspect in determining whether a scheme is controlled by the group or not. Where the control criteria are not met, the criteria for joint control and significant influence are considered. Refer to Annexure A and B for information on the collective investment schemes classified as subsidiaries or associates.
- Impairment testing of intangibles – note 1
- Valuation assumptions for both owner-occupied and investment properties – notes 2 and 4
- Provision for current and deferred tax – note 9
- Assumptions and estimates of contract holder liabilities (also applicable to reinsurance contracts) – notes 8, 17 and 20
- Valuation assumptions for financial instruments – note 51

Management has determined the operating segments based on the way the business is managed. The reports used by the chief operating decision-maker, the members of the executive committee, to make strategic decisions reflect this.

MMI is in the process of phasing in a new client-centric operating model announced in March 2014. The disclosure in the financial statements is consistent with that of the 2014 year-end. Appropriate changes in financial reporting will be introduced as the group progresses with the operating model implementation.

The committee considers the business from both a geographic and product perspective. The South African operations are segregated into Momentum Retail, Metropolitan Retail, Momentum Employee Benefits, Momentum Investments, Metropolitan Health and Shareholder Capital (which includes Momentum Short-term Insurance (MSTI), Balance sheet management (BSM), other support services, and growth initiatives). The non-South African life insurance, health and asset management companies are all managed as one operating segment, International.

For management purposes, the group is organised into the following reporting segments:

- **Momentum Retail:** Caters for the financial needs of clients in the middle to upper-income and wealth market segments in South Africa. Product offering: Best-of-breed and fit-for-purpose wealth creation and preservation, risk (insurance) and savings (income) products.
- **Metropolitan Retail:** Focuses on meeting the needs of clients in the lower to middle-income market, including extended families. Product offering: Savings, income generation and income protection (risk) products.
- **Momentum Employee Benefits:** Provides income protection and continuation for employees, liability management for employers and retirement funds, and administration for selected retirement funds in South Africa and the open medical scheme, Momentum Medical Scheme Administrators. Product offering: Administration, insurance and investment solutions for employers and retirement funds in large corporate and small, micro and medium enterprise (SMME) market segments. This segment also includes Guardrisk in the current year (2014: four months).
- **International:** Provides products for retail and institutional customers in Africa for: health insurance and healthcare administration, risk savings and investment products, retirement fund administration, short-term and long-term insurance.
- **Momentum Investments:** A full-service investment manager in South Africa, Africa and selected international markets. Product offering: Active and passive investment management (local and international), alternative

investment management, multi-management, collective investment management and property investment management.

- **Metropolitan Health:** A leading player in the health industry for public sector and corporate clients plus open schemes in South Africa. Product offering: medical scheme administration, managed healthcare, healthcare-related IT and open scheme distribution.
- **Shareholder Capital:** Manages the holding company activities and includes BSM. BSM manages the group's strategic balance sheet risks, focusing on the financial position of shareholders and including capital, corporate action, strategic funding and liquidity risk, credit risk, asset-liability matching (with a primary focus on guaranteed liabilities), group treasury, performance measurement and market risk. It includes MSTI, MMI Rewards, other support services and growth initiatives.

Inter-segment fees are charged at market-related rates. Corporate costs are allocated on a usage or time spent basis. Inter-segment charges are eliminated in the "Reconciling items" column. No individual customer generates more than 10% of revenue for the group.

The executive committee assesses the performance of the operating segments based on diluted core headline earnings. This measurement basis excludes the effect of net realised and fair value gains on financial assets and liabilities, investment variances, basis changes, certain non-recurring items, and the amortisation of intangible assets acquired in business combinations. For insurance operating segments, diluted core headline earnings also exclude the effect of investment income on shareholder assets, as this income is managed on a group basis and is therefore included in the Shareholder Capital segment.

A reconciliation of diluted core headline earnings to earnings is provided in note 36.

Reconciliation of management information to IFRS

The segmental information is reconciled to the IFRS income statement results. The adjustments are shown in two columns:

- The "Adjustments for FNB Life" column represents a reconciliation of Metropolitan Retail's segmental information, which excludes the FNB Life profit-sharing arrangement, to the figures included under IFRS.
- The "Reconciling items" column represents the IFRS accounting reclassifications and adjustments that are required to reconcile management information to the IFRS financial statements. More information has been provided as a footnote.

SEGMENTAL REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

2015	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits ³ Rm	International Rm
Revenue				
Net insurance premiums	24 017	6 910	21 131	3 563
Recurring premiums	8 333	5 495	13 860	3 215
Single premiums	15 684	1 415	7 271	348
Fee income	2 374	95	2 054	256
External fee income	2 374	95	2 054	256
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders				
External payments	23 636	4 967	15 933	1 953
Other expenses	3 916	1 982	4 120	1 431
Sales remuneration	2 072	893	1 391	544
Administration expenses ²	1 844	1 089	1 532	887
Amortisation due to business combinations and impairments	–	–	–	–
Cell captive business	–	–	1 197	–
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	788	390	1 123	100
Diluted core headline earnings	1 531	738	660	152
Operating profit	2 129	1 026	918	185
Tax on operating profit	(598)	(288)	(258)	(33)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	184 048	33 226	91 912	10 095

¹ The “Reconciling items” column includes: an adjustment to reverse investment contract premiums (R37 673 million) and claims (R33 899 million); grossing up of fee income and expenses relating to the Shareholder Capital segment that are set off for management reporting purposes (R355 million); non-recurring items of R378 million; direct property and asset management fees for all segments, except non-life segments, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; expenses relating to consolidated collective investment schemes (R17 million); other minor adjustments to expenses (R145 million), sales remuneration (R7 million) and fee income (R74 million); and adjustments to actuarial liabilities representing inter-segmental liabilities.

² Administration expenses for the current year include the following relating to new acquisitions: International – R54 million relating to Cannon; Metropolitan Health – R258 million relating to CareCross.

³ Momentum Employee Benefits includes net insurance premiums (R5 484 million), fee income (R577 million), net payments to contract holders (R3 502 million), sales remuneration (R1 293 million), administration expenses (R272 million), cell captive business expenses (R1 197 million) and actuarial liabilities (R17 460 million) relating to Guardrisk (now including Momentum Ability).

⁴ The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R23 000 million, and the total of such non-current assets located in other countries is R1 223 million.

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items ¹ Rm	Adjustments for FNB Life Rm	IFRS total Rm
8 305	387	506	64 819	(37 673)	250	27 396
–	387	506	31 796	(8 281)	250	23 765
8 305	–	–	33 023	(29 392)	–	3 631
1 367	1 674	74	7 894	(549)	10	7 355
1 367	1 674	74	7 894	429	10	8 333
–	–	–	–	(978)	–	(978)
11 277	301	442	58 509	(33 899)	–	24 610
1 189	1 481	1 043	15 162	2 695	268	18 125
–	7	87	4 994	(7)	84	5 071
1 028	1 462	437	8 279	895	184	9 358
58	12	40	110	891	–	1 001
–	–	–	1 197	–	–	1 197
–	–	–	–	120	–	120
103	–	252	355	1 774	–	2 129
–	–	227	227	–	–	227
–	–	–	–	(978)	–	(978)
88	58	(21)	2 526	(95)	–	2 431
181	209	365	3 836	–	–	3 836
206	272	(21)	4 715	–	–	4 715
(61)	(76)	(48)	(1 362)	–	–	(1 362)
50	19	549	618	–	–	618
(14)	(6)	(115)	(135)	–	–	(135)
34 420	30	4 203	357 934	(115)	–	357 819

SEGMENTAL REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

Restated 2014	Momentum Retail Rm	Metropolitan Retail Rm	Momentum Employee Benefits ² Rm	International Rm
Revenue				
Net insurance premiums	22 517	6 820	17 343	2 898
Recurring premiums	7 856	5 313	10 283	2 621
Single premiums	14 661	1 507	7 060	277
Fee income	2 034	112	1 479	184
External fee income	2 034	112	1 479	184
Inter-segmental fee income	–	–	–	–
Expenses				
Net payments to contract holders				
External payments	21 215	5 523	12 907	1 602
Other expenses	3 474	2 100	2 316	1 168
Sales remuneration	1 892	937	519	424
Administration expenses	1 582	1 163	1 426	729
Amortisation due to business combinations and impairments	–	–	–	15
Cell captive business	–	–	371	–
Direct property expenses	–	–	–	–
Asset management and other fee expenses	–	–	–	–
Holding company expenses	–	–	–	–
Inter-segmental expenses	–	–	–	–
Income tax	957	341	754	76
Diluted core headline earnings	1 372	587	516	122
Operating profit	1 908	814	704	155
Tax on operating profit	(536)	(227)	(188)	(33)
Investment income	–	–	–	–
Tax on investment income	–	–	–	–
Actuarial liabilities	175 869	32 296	82 902	9 152

¹ The "Reconciling items" column includes an adjustment to reverse investment contract premiums (R33 305 million) and claims (R30 108 million); grossing up of fee income and expenses relating to the Shareholder Capital segment that are set off for management reporting purposes (R334 million); non-recurring items of R192 million; direct property and asset management fees for all segments, except non-life segments, that are set off against investment income for management reporting purposes but shown as an expense for accounting purposes; the amortisation of intangibles relating to business combinations; expenses relating to consolidated collective investment schemes (R6 million); other minor adjustments to expenses (R161 million), sales remuneration (R8 million) and fee income (R90 million); and adjustments to actuarial liabilities representing inter-segmental liabilities.

² Momentum Employee Benefits includes net insurance premiums (R1 927 million), fee income (R192 million), net payments to contract holders (R1 642 million), sales remuneration (R415 million), administration expenses (R88 million), cell captive business expenses (R371 million) and actuarial liabilities (R15 869 million) relating to Guardrisk (now including Momentum Ability).

³ The total of non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in South Africa is R22 216 million, and the total of such non-current assets located in other countries is R755 million.

Momentum Investments Rm	Metropolitan Health Rm	Shareholder Capital Rm	Segmental total Rm	Reconciling items ¹ Rm	Adjustments for FNB Life Rm	IFRS total Rm
6 262	47	355	56 242	(33 305)	201	23 138
–	47	332	26 452	(6 914)	201	19 739
6 262	–	23	29 790	(26 391)	–	3 399
1 442	1 513	168	6 932	(385)	20	6 567
1 442	1 513	168	6 932	424	20	7 376
–	–	–	–	(809)	–	(809)
10 823	46	313	52 429	(30 108)	–	22 321
1 195	1 311	830	12 394	2 608	223	15 225
–	–	71	3 843	(8)	64	3 899
954	1 288	197	7 339	693	159	8 191
9	14	39	77	776	–	853
–	–	–	371	–	–	371
–	–	–	–	159	–	159
232	9	270	511	1 819	–	2 330
–	–	253	253	–	–	253
–	–	–	–	(831)	–	(831)
92	45	342	2 607	(198)	49	2 458
197	171	656	3 621	–	–	3 621
219	205	(38)	3 967	–	–	3 967
(59)	(44)	12	(1 075)	–	–	(1 075)
51	14	864	929	–	–	929
(14)	(4)	(182)	(200)	–	–	(200)
34 942	8	3 528	338 697	(98)	–	338 599

SEGMENTAL REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
Payments to contract holders are reconciled to net insurance benefits and claims in the income statement.		
Momentum Retail	23 636	21 215
Death and disability claims	3 730	3 412
Maturity claims	7 546	6 444
Annuities	4 763	4 505
Withdrawal benefits	80	46
Surrenders	8 523	7 569
Reinsurance recoveries	(1 006)	(761)
Metropolitan Retail	4 967	5 523
Death and disability claims	1 093	1 049
Maturity claims	1 668	2 373
Annuities	620	558
Withdrawal benefits	84	97
Surrenders	1 560	1 542
Reinsurance recoveries	(58)	(96)
Momentum Employee Benefits ¹	15 933	12 907
Death and disability claims	4 589	3 635
Maturity claims	948	667
Annuities	1 554	765
Withdrawals and surrenders	4 020	3 358
Terminations and disinvestments	3 109	3 802
Short-term insurance	4 745	1 880
Reinsurance recoveries	(3 032)	(1 200)
International (individual and employee benefits)	1 953	1 602
Death and disability claims	813	701
Maturity claims	371	284
Annuities	99	97
Withdrawal benefits	108	90
Surrenders	498	395
Terminations and disinvestments	194	80
Reinsurance recoveries	(130)	(45)
Investments – withdrawal benefits	11 277	10 823
Health claims – capitation agreements	301	46
Shareholder Capital claims	442	313
Segmental payments to contract holders	58 509	52 429
Reconciling items ²	(33 899)	(30 108)
Net insurance benefits and claims (refer to note 30)	24 610	22 321

¹ Included in Momentum Employee Benefits above is R6 119 million claims (2014: R2 556 million) and R2 617 million reinsurance recoveries (2014: R914 million) relating to Guardrisk (now including Momentum Ability).

² Relates mainly to payments to investment contract holders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

		2015 Rm	2014 Rm
1	INTANGIBLE ASSETS		
	Goodwill	1 333	1 088
	Value of in-force business acquired	5 168	5 498
	Customer relationships	2 467	2 322
	Brands	948	985
	Broker network	337	386
	Deferred acquisition costs on long-term investment business	2 092	2 059
	Deferred acquisition costs on short-term business	61	–
	Computer software	747	481
		13 153	12 819
1.1	Goodwill		
	Cost	1 394	1 149
	Accumulated impairment	(61)	(61)
	Carrying amount	1 333	1 088
	Carrying amount at beginning	1 088	502
	Business combinations (refer to note 38)	234	586
	Exchange differences	11	–
	Carrying amount at end	1 333	1 088
	Cash-generating units		
	Ex-Metropolitan group – Metropolitan Retail (Metropolitan/Momentum merger)	170	170
	Momentum Medical Scheme Administrators (MMSA) – Metropolitan Health	127	127
	Momentum Manager of Managers – Momentum Investments	14	14
	Eris Property Group – Momentum Investments	191	191
	Guardrisk – Momentum Employee Benefits	567	567
	Providence – Metropolitan Health	19	19
	Cannon – International (refer to note 38)	103	–
	Other ¹ (refer to note 38)	142	–
		1 333	1 088

¹ Included in other is exchange rate differences of R11 million.

Critical accounting estimates and judgements

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing.

The recoverable value of these CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond one year are extrapolated using the estimated growth for the CGU. Future cash flows are discounted at a rate of return that makes allowance for the uncertain nature of the future cash flows. These calculations are dependent on the assumptions disclosed below.

	2015		2014	
	Risk discount rate	Growth rate	Risk discount rate	Growth rate
Assumptions				
Ex-Metropolitan group	11%	7%	11%	7%
Momentum Medical Scheme Administrators	22%	6%	22%	6%
Momentum Manager of Managers	11%	7%	11%	6%
Eris Property Group	11%	3%	11%	3%
Guardrisk	11%	7%	11%	2%
Cannon	16%	8%	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

1 INTANGIBLE ASSETS *continued*

1.1 Goodwill *continued*

Changes in the assumptions relating to the CGUs are not considered to be materially sensitive in the current year. In the prior year, increasing the discount rate used in the value-in-use calculations relating to MMSA by 1% would have resulted in an impairment of R21 million. The growth rate for Eris Property Group is after assumed lease terminations and vacancies.

	2015 Rm	2014 Rm
1.2 Value of in-force business acquired		
<i>Acquisition of insurance and investment contracts with DPF</i>		
Cost	6 782	6 782
Accumulated amortisation	(1 614)	(1 284)
Carrying amount	5 168	5 498
Carrying amount at beginning	5 498	5 681
Business combinations (refer to note 38)	–	138
Amortisation charges	(330)	(321)
Carrying amount at end	5 168	5 498
	To be fully amortised by year:	
<i>The carrying amount is made up as follows:</i>		
Sage – Momentum Retail	2046	706
Momentum Namibia – International	2051	253
Metropolitan/Momentum merger		
Metropolitan Retail	2041	3 110
Metropolitan Employee Benefits	2041	637
International	2041	349
Guardrisk – Momentum Employee Benefits	2034	104
Other	9	10
	5 168	5 498

As a result of certain insurance contract acquisitions, the group carries an intangible asset representing the present value of in-force covered business (VIF) acquired. The business combinations in the prior year relates mainly to the acquisition of Guardrisk (R128 million).

Critical accounting estimates and judgements

The value of in-force business acquired is tested for impairment through the liability adequacy test. Changing the amortisation period by 20% does not have a material impact on the group earnings before tax.

		2015 Rm	2014 Rm
1	INTANGIBLE ASSETS <i>continued</i>		
1.3	Customer relationships		
	Cost	4 335	3 723
	Accumulated amortisation	(1 863)	(1 398)
	Accumulated impairment	(5)	(3)
	Carrying amount	2 467	2 322
	Carrying amount at beginning	2 322	2 268
	Business combinations (refer to note 38)	612	447
	Amortisation charges	(465)	(393)
	Impairment charges	(2)	–
	Carrying amount at end	2 467	2 322
		To be fully amortised by year:	
	<i>The carrying amount is made up as follows:</i>		
	Metropolitan/Momentum merger		
	Metropolitan Health	2021	803
	Asset management – Momentum Investments	2021	37
	Investment contracts – Momentum Employee Benefits	2021	586
	Metropolitan Health Namibia Administrators – International	2019	62
	Momentum Short-term Insurance – Shareholder Capital	2027	56
	Guardrisk – Momentum Employee Benefits	2024	266
	Providence – Metropolitan Health	2023	89
	CareCross – Metropolitan Health	2019	293
	Cannon – International	2024	168
	Other		107
			2 467
			2 322

Customer relationships acquired represent the fair value of customer relationships in place immediately before a business combination took place. The business combinations in the current year relate mainly to the acquisition of CareCross (R367 million) and Cannon (R173 million). The business combinations in the prior year relate mainly to the acquisition of Guardrisk (R307 million) and Providence (R112 million). Other includes customer relationships relating to smaller acquisitions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

		2015 Rm	2014 Rm
1	INTANGIBLE ASSETS <i>continued</i>		
1.4	Brands		
	Cost	1 208	1 183
	Accumulated amortisation	(260)	(198)
	Carrying amount	948	985
	Carrying amount at beginning	985	963
	Business combinations (refer to note 38)	25	79
	Amortisation charges	(62)	(57)
	Carrying amount at end	948	985
		To be fully amortised by year:	
	<i>The carrying amount is made up as follows:</i>		
	Metropolitan brand (Metropolitan/Momentum merger)	2031 831	884
	Momentum Namibia brand – International	2027 22	23
	Guardrisk brand – Momentum Employee Benefits	2034 74	78
	CareCross brand – Metropolitan Health	2024 21	–
		948	985
	The acquisition of CareCross in the current year resulted in the recognition of the CareCross brand of R25 million. The acquisition of Guardrisk in the prior year resulted in the recognition of the Guardrisk brand of R79 million.		
1.5	Broker network		
	Cost	490	490
	Accumulated amortisation	(153)	(104)
	Carrying amount	337	386
	Carrying amount at beginning	386	65
	Business combinations (refer to note 38)	–	355
	Amortisation charges	(49)	(34)
	Carrying amount at end	337	386
		To be fully amortised by year:	
	<i>The carrying amount is made up as follows:</i>		
	Metropolitan/Momentum merger	2016 11	38
	Guardrisk (non-life) – Momentum Employee Benefits	2029 249	267
	Guardrisk (life) – Momentum Employee Benefits	2034 77	81
		337	386
	The acquisition of Guardrisk in the prior year resulted in the recognition of broker networks of R355 million.		
1.6	Deferred acquisition costs on long-term investment business		
	Cost	4 443	4 058
	Accumulated amortisation	(2 351)	(1 999)
	Carrying amount	2 092	2 059
	Carrying amount at beginning	2 059	1 994
	Additions	379	330
	Amortisation charges	(347)	(267)
	Exchange differences	1	2
	Carrying amount at end	2 092	2 059

	2015 Rm	2014 Rm
1 INTANGIBLE ASSETS <i>continued</i>		
1.7 Deferred acquisition costs on short-term business		
Cost	105	–
Accumulated amortisation	(44)	–
Carrying amount	61	–
Carrying amount at beginning	–	–
Additions	105	–
Amortisation charges	(44)	–
Carrying amount at end	61	–
1.8 Computer software		
Cost	1 005	584
Accumulated amortisation	(214)	(76)
Accumulated impairment	(44)	(27)
Carrying amount	747	481
Carrying amount at beginning	481	296
Additions	338	218
Business combinations (refer to note 38)	84	76
Amortisation charges	(138)	(84)
Impairment charges	(17)	(24)
Exchange differences	(1)	(1)
Carrying amount at end	747	481

As a result of the strategic decision by management to outsource investment administration in future, investment administration systems have been fully impaired by R17 million in the current year. The health business system used by the International segment was impaired in the prior year by R15 million as a result of the number of lives under administration not growing as anticipated.

Internally developed software

Included in computer software is a carrying value of R370 million (2014: R148 million) representing internally developed software.

Material computer software

The Shareholder Capital segment has computer software of R76 million (2014: R64 million) which will be fully amortised by 2023. For impairment testing purposes, a cost of capital of 13% (2014: 12%) was used to present value the future economic benefits of the software.

Guardrisk (Momentum Employee Benefits) has computer software of R74 million (2014: R69 million) which will be fully amortised by 2024. For valuation purposes a risk discount rate of 11% (2014: 11%) and a growth rate of 2% (2014: 2%) was used.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
2 OWNER-OCCUPIED PROPERTIES		
Owner-occupied properties – at fair value	3 030	1 714
Historical carrying value – cost model	2 125	911
Fair value at beginning	1 714	1 488
Additions	9	4
Disposals	(20)	–
Business combinations (refer to note 38)	19	–
Revaluations	140	31
Depreciation charges	(61)	(44)
Transfer from investment properties	1 229	235
Fair value at end	3 030	1 714

A register of owner-occupied properties is available for inspection at the company's registered office.

Critical accounting estimates and judgements

All properties are valued using a discounted cash flow method or the income capitalisation approach based on the aggregate contractual or market-related rent receivable less associated costs. The discounted cash flow takes projected cash flows and discounts them at a rate which is consistent with comparable market transactions. Any gains or losses arising from changes in fair value are included in other comprehensive income for the year. All owner-occupied properties were valued internally by Eris at the end of the current and prior year.

Assumptions	Base assumption	Change in assumption	Change in fair value	
			Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	8.0% – 12.0%	10%	121	(99)
Discount rate	13.0% – 16.0%	10%	79	(103)

Capitalisation and discount rates (2014: 9.0% – 12.0% and 14.0% – 16.0% respectively) are determined based on a number of factors, including but not limited to the following: the current risk-free rate, the risk associated with the income stream flowing from the property, the real estate cycle, current economic conditions at both the micro and macro-economic level and the yield that an investor would require in order to make the property an attractive investment. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building. Eris is responsible for all of the internal valuations of the group. Their valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the owner-occupied property being valued.

	2015 Rm	2014 Rm
3 PROPERTY AND EQUIPMENT		
Equipment and leasehold improvements		
Cost	497	370
Accumulated depreciation	(142)	(53)
Accumulated impairment	(2)	(2)
Carrying amount	353	315
Equipment comprises furniture and fittings, computer equipment and motor vehicles.		
Carrying amount at beginning	315	348
Additions	227	159
Disposals	(14)	(11)
Business combinations (refer to note 38)	14	5
Depreciation charges	(189)	(185)
Impairment charges	–	(1)
Carrying amount at end	353	315

	2015 Rm	2014 Rm
4 INVESTMENT PROPERTIES		
<i>At 30 June investment properties comprised the following property types:</i>		
Industrial	302	284
Shopping malls	3 667	3 351
Office buildings	2 945	3 818
Hotels	235	261
Vacant land	98	88
Other	149	1
Property at valuation	7 396	7 803
Accelerated rental income (refer to note 11)	(184)	(128)
	7 212	7 675
Investment properties under development		
Fair value at beginning	–	521
Capitalised development expenditure	–	410
Transfer to completed properties	–	(931)
Fair value at end	–	–
Completed properties		
Fair value at beginning	7 675	5 912
Capitalised subsequent expenditure	93	86
Business combinations (refer to note 38)	116	–
Additions	277	504
Disposals	(103)	(64)
Revaluations	439	572
Change in accelerated rental income	(56)	(31)
Transfer to owner-occupied properties	(1 229)	(235)
Transfer from investment properties under development	–	931
Fair value at end	7 212	7 675
Total investment properties	7 212	7 675

A register of investment properties is available for inspection at the company's registered office.

Critical accounting estimates and judgements

All properties were internally or externally valued using a discounted cash flow method based on contractual or market-related rent receivable. External valuations were obtained for certain properties as at 30 June 2015, amounting to 36% (2014: 37%) of the portfolio for the group. Eris is responsible for the majority of the internal valuations of the group. Their valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Assumptions	Base assumption	Change in assumption	Change in fair value	
			Decrease in assumption Rm	Increase in assumption Rm
Capitalisation rate	7.0% – 11.0%	10%	665	(198)
Discount rate	13.0% – 16.0%	10%	316	(411)

Capitalisation and discount rates (2014: 7.0% – 12.0% and 13.0% – 16.0% respectively) are determined using the Investment Property Databank South Africa rates. For valuation purposes, existing lease agreements and subsequent expected rentals are used to determine the fair value of each building.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
5 INVESTMENTS IN ASSOCIATES		
Carrying amount at beginning	179	121
Additions	2	56
Share of profit	4	2
Dividends paid	(1)	–
Transfer to subsidiary	(39)	–
Carrying amount at end – non-current	145	179

Group interest in equity-accounted associates	%*	Carrying value			
		Rm	Assets Rm	Liabilities Rm	Earnings Rm
2015					
Global Doctors Network (Pty) Ltd (GDN)	–	–	–	–	(13)
BEP Developments (Pty) Ltd (BEP)	50%	5	7	(2)	–
BVI 290 (Pty) Ltd (BVI 290)	50%	2	8	(6)	–
Khumo Property Management (Pty) Ltd (KPM)	50%	3	5	(2)	–
Q Mall (Pty) Ltd (QM)	50%	–	8	(8)	–
Siki Fox Properties (Pty) Ltd (SFP)	50%	6	7	(1)	–
C Shell 448 (Pty) Ltd (C Shell)	49%	5	8	(10)	2
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	19	19	–	5
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	22%	–	182	(219)	–
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	91	91	–	10
Racecourse Mall (Pty) Ltd (RM)	13%	14	33	(19)	–
		145	368	(267)	4
2014					
Global Doctors Network (Pty) Ltd (GDN)	65%	52	60	(38)	(21)
BEP Developments (Pty) Ltd (BEP)	50%	4	4	–	4
BVI 290 (Pty) Ltd (BVI 290)	50%	2	8	(6)	–
Khumo Property Management (Pty) Ltd (KPM)	50%	4	5	(1)	2
Q Mall (Pty) Ltd (QM)	50%	–	5	(5)	–
Siki Fox Properties (Pty) Ltd (SFP)	50%	8	38	(30)	1
C Shell 448 (Pty) Ltd (C Shell)	49%	2	6	(10)	1
Eris Property Fund Carry Vehicle (Pty) Ltd (EPF CV)	27%	14	17	–	15
Mettle Property Solutions Securitisation (Pty) Ltd (MPSS)	25%	–	197	(238)	–
Kagiso Empowerment Infrastructure Fund (KEIF)	15%	81	81	–	13
Racecourse Mall (Pty) Ltd (RM)	13%	12	34	(22)	(13)
		179	455	(350)	2

* Effective group percentage held

- GDN (Metropolitan Health segment) provides services to the healthcare industry. During the prior year, an additional 15% in GDN was purchased for R32 million. The additional investment did not change the group's power to control the entity. GDN was transferred to a subsidiary on 1 January 2015 when the group acquired an additional stake in the company. The step-up to fair value was not considered material and the purchase price allocation has been included in the Other column in note 38.
- BEP, BVI 290, KPM, QM, SFP and RM are property services companies held by Eris Property Group (Pty) Ltd in the Momentum Investments segment.
- C Shell (International segment) is held 51% by Kagiso Tiso Holdings. C Shell owns 33% of Silverbridge Holdings Ltd which owns a company specialising in IT insurance software. The carrying value includes a loan of R7 million.
- EPF CV (Momentum Investments segment) owns 100% of the ordinary shares in Eris Property Fund (Pty) Ltd (EPF). The group also owns 31.67% of the preference shares in EPF. Refer to note 7. The preference shares have a term of five years and the dividend rate is the risk-free rate plus 0.5%.
- MPSS provides funding to affordable housing developments and relates to the Shareholder Capital segment. The carrying value is limited to zero.
- KEIF fund relates to an associate held by a consolidated collective investment scheme.
- Management has assessed the level of influence that the group has on KEIF and RM and determined that it has significant influence even though the shareholding is below 20%.

	2015 Rm	Restated 2014 Rm
6 FINANCIAL INSTRUMENTS		
6.1 Securities designated at fair value through income		
Equity securities	104 748	100 790
Debt securities	104 176	88 788
Funds on deposit and other money market instruments	24 473	24 941
Unit-linked investments	132 330	120 477
	365 727	334 996
Open-ended	238 257	218 859
Current	46 044	42 017
Non-current	81 426	74 120
1 to 5 years	33 500	37 572
5 to 10 years	15 355	13 030
> 10 years	32 571	23 518
	365 727	334 996

General

The open-ended maturity category includes investment assets such as listed and unlisted equities, unit-linked investments and other non-term instruments. For these instruments, management is unable to provide a reliable estimate of maturity, given factors such as the volatility of the respective markets and policyholder behaviour.

For risk disclosure of the above financial instruments, refer to the risk management section of the financial statements.

Refer to note 43.1 for details of unlisted financial assets.

A schedule of equity securities is available for inspection at the company's registered office.

	2015 Rm	2014 Rm
Scrip lending (included above)		
<i>Carrying value of securities on loan</i>		
Local listed equity securities	2 157	2 069
Refer to note 50 for detail on collateral held.		
6.2 Investments in associates designated at fair value through income		
Collective investment schemes (refer to Annexure B)	12 362	11 900

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015		2014	
	Assets Rm	Liabilities Rm	Assets Rm	Liabilities Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>				
6.3 Derivative financial instruments				
Held for trading	2 027	2 111	2 347	1 853
Held for hedging purposes	6	–	15	–
Fair value hedges	6	–	15	–
	2 033	2 111	2 362	1 853
Current	564	304	790	272
Non-current	1 469	1 807	1 572	1 581
	2 033	2 111	2 362	1 853

As part of its asset and liability management, the group purchases derivative financial instruments to reduce the exposure of policyholder and shareholder assets to market risks and to match the liabilities arising on insurance contracts.

Under no circumstances are derivative contracts entered into for speculative purposes. Where derivative financial instruments do not meet the hedge accounting criteria in IAS 39 – Financial instruments: recognition and measurement – they are classified and accounted for as instruments held for trading in accordance with the requirements of this standard.

The following table shows the fair value of derivative financial instruments recorded as assets or liabilities, together with their effective exposure. Effective exposure is the exposure of a derivative financial contract or instrument to the underlying asset by also taking delta (the ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative) into account, where applicable.

The mark-to-market value of a derivative does not give an indication of the effective exposure of portfolios to changes in market values of that derivative position. The effective exposure of a derivative position reflects the equivalent amount of the underlying security that would provide the same profit or loss as the derivative position, given an incremental change in the price of the underlying security. A derivative position is translated into the equivalent physical holding, or its market value, which provides a meaningful measure in respect of asset allocation. For example:

- the market value for swaps, such as interest rate swaps;
- the underlying market value represented by futures contracts; and
- the delta adjusted effective exposure derived from an option position.

	2015			2014		
	Effective exposure Rm	Assets Rm	Liabilities Rm	Effective exposure Rm	Assets Rm	Liabilities Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>						
6.3 Derivative financial instruments <i>continued</i>						
Derivatives held for trading						
Equity derivatives		120	159		238	308
Options, OTC	349	68	61	(103)	150	137
Options, exchange traded	(664)	9	–	(1 157)	2	–
Futures, exchange traded	873	35	98	711	67	171
Swaps, OTC	8	8	–	19	19	–
Interest rate derivatives		1 827	1 158		2 098	1 259
Options, OTC	(200)	12	–	–	–	–
Swaps, OTC	655	1 809	1 154	835	2 092	1 257
Forward rate agreement, OTC	(276)	6	4	(1 315)	6	2
Bonds		69	25		9	–
Options, exchange traded	10	–	–	49	–	–
Futures, OTC	(1 454)	5	25	327	8	–
Futures, exchange traded	973	64	–	2 100	1	–
Credit derivatives		4	7		2	–
Swaps, OTC	(3)	4	7	2	2	–
Currency derivatives		7	762		–	286
Futures, OTC	7	7	–	–	–	–
Futures, exchange traded	(644)	–	64	(283)	–	–
Swaps, OTC	(698)	–	698	(286)	–	286
Derivatives held for trading		2 027	2 111		2 347	1 853
Derivatives held for hedging purposes						
Interest rate swaps	6	6	–	15	15	–
Total derivative financial instruments		2 033	2 111		2 362	1 853

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the group.

Over-the-counter derivatives may expose the group to the risks associated with the absence of an exchange market on which to close out an open position.

The group's exposure under derivative contracts is closely monitored as part of the overall management of the group's market risk.

Fair value hedges

Fair value hedges are used by the group to protect certain shareholder assets against changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The group has two fair value hedges in place with the fixed callable notes (refer to note 18) being the hedged items. The group earns variable interest rates in the shareholder portfolio, while paying fixed interest on the callable notes. The risk has been hedged with a swap agreement whereby the group earns fixed interest but pays variable interest. This matches the variable nature of the investment income earned on the shareholder portfolio.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>		
6.3 Derivative financial instruments <i>continued</i>		
Hedge accounting has been applied to the 2006 callable notes as follows:		
Gains/(losses) for the year ended 30 June arising from the change in fair value of the swap agreement and callable notes:		
Interest rate swaps	5	(18)
2006 Subordinated callable notes	3	17
Net realised and fair value gains/(losses)	8	(1)
Gains/(losses) for the year ended 30 June arising from the change in fair value of fair value hedges:		
On hedging instrument	(8)	(16)
On hedged items attributable to the hedged risk: 2006 callable notes	13	21
Ineffective portion recognised in Net realised and fair value gains	5	5
6.4 Available-for-sale		
Equity securities		
Local listed	12	3
Foreign listed	147	87
Unlisted	36	4
Debt securities – listed	–	31
Unit-linked investments	13	4
	208	129
Open-ended	8	7
Current	200	118
Non-current	–	4
1 to 5 years	–	4
	208	129

General

The unit-linked investments represent the seed capital provided by the group to enable the collective investment scheme management company to establish new collective investment schemes.

The open-ended category includes financial instruments with no fixed maturity date as management is unable to provide a reliable estimate of maturity, given the volatility of equity markets and policyholder behaviour. This category includes listed and unlisted equities, unit-linked investments and other non-term instruments.

	2015 Rm	2014 Rm
6 FINANCIAL INSTRUMENTS <i>continued</i>		
6.5 Held-to-maturity		
Funds on deposit and other money market instruments – non-current	42	85
Debt securities – non-current	31	15
	73	100
7 LOANS AND RECEIVABLES		
Accounts receivable	2 993	2 444
Unsettled trades	2 503	772
Loans	2 359	2 370
Staff loans	67	27
Loans due from associates	80	134
Preference shares	64	57
Empowerment partners	328	355
Other related party loans	81	48
Less: provision for impairment on related party loans	(65)	(59)
Due from agents, brokers and intermediaries	355	345
Less: provision for impairment	(174)	(112)
Policy loans	1 444	1 421
Other	179	154
	7 855	5 586
Current	6 814	4 970
Non-current	1 041	616
	7 855	5 586
Reconciliation of aggregated provision accounts		
Balance at beginning	171	144
Additional provision	81	45
Utilised/reversed during year	(13)	(18)
Balance at end	239	171

Terms and conditions of material loans

- Loans due from associates include:
 - R56 million (2014: R55 million) loans to Mettle Property Solutions Securitisation (Pty) Ltd. Interest is charged at JIBAR plus 3.5% or 6% (nacq). The repayment and security of the loan is linked to the underlying loan investment. The loans were impaired by R11 million in the current year (2014: R18 million).
 - a loan to Racecourse Mall (Pty) Ltd of R32 million in the prior year that has since been repaid. Interest was charged at 4.75%. The loan was secured by the underlying property in the company.
- The loans to empowerment partners of R328 million includes a loan of R303 million at 30 June 2015 (2014: R323 million) that relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.
- Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate but limited to 13% (2014: 13%) and have no fixed repayment date. Policy loans are tested for impairment against the surrender value of the policy.

Impairment of loans

- Impairment of loans to agents, brokers and intermediaries is mainly due to intermediaries moving to out-of-service status and unproductive agent accounts.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	Restated 2014 Rm
8 REINSURANCE CONTRACT ASSETS		
Reinsurance asset relating to long-term insurance	1 225	708
Reinsurance asset relating to cell captive business	1 267	1 563
Prepaid reinsurance	554	507
	3 046	2 778
Balance at beginning	2 778	1 345
Movement charged to income statement	(154)	534
Attributable to non-cell captive business	(28)	(26)
Attributable to cell captive business	(126)	560
Business combinations (refer to note 38)	6	762
Cell captive premiums	(12)	4
First-party cell captives	494	96
Third-party cell captives	(73)	(13)
Exchange differences	1	2
Other	6	48
Balance at end	3 046	2 778
Current	2 357	2 218
Non-current	689	560
	3 046	2 778

Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance assets. Amounts due from reinsurers in respect of claims incurred by the group on contracts that are reinsured are included in insurance and other receivables. Refer to note 11.

	2015 Rm	2014 Rm
9 DEFERRED INCOME TAX		
Deferred tax asset	287	263
Deferred tax liability	(4 351)	(4 281)
	(4 064)	(4 018)
<i>Deferred tax is made up as follows:</i>		
Accruals and provisions	227	139
Accelerated wear and tear	(6)	(7)
Revaluations	(1 523)	(1 587)
Deferred tax on intangible assets as a result of business combinations	(2 521)	(2 533)
Deferred revenue liability	159	146
Difference between published and statutory policyholder liabilities	612	692
Tax losses	150	191
Negative rand reserves	(408)	(395)
Deferred acquisition costs	(597)	(561)
Prepayments	(8)	(4)
Other	(149)	(99)
	(4 064)	(4 018)
Current	(346)	(136)
Non-current	(3 718)	(3 882)
	(4 064)	(4 018)

	2015 Rm	2014 Rm
9 DEFERRED INCOME TAX <i>continued</i>		
<i>Movement in deferred tax</i>		
Balance at beginning	(4 018)	(3 793)
Charge to the income statement	207	(25)
Accruals and provisions	84	(37)
Accelerated wear and tear	2	7
Revaluations	86	(171)
Deferred tax on intangible assets as a result of business combinations	228	296
Deferred revenue liability	12	9
Difference between published and statutory policyholder liabilities	(81)	40
Tax losses	(37)	(34)
Negative rand reserves	(13)	3
Deferred acquisition costs	(36)	6
Prepayments	(4)	(3)
Other	(34)	(141)
Charge to other comprehensive income (refer to note 14)	(36)	(12)
Business combinations (refer to note 38)	(213)	(132)
Exchange differences	–	4
Other	(4)	(60)
Balance at end	(4 064)	(4 018)
Deferred tax asset on available tax losses and credits not provided for	249	233

Creation of deferred tax assets and recognition of deferred tax liabilities

Tax losses have been provided for as deferred tax assets where at year-end their recoverability was probable.

Included in the deferred tax asset of R150 million (2014: R191 million) raised due to tax losses, is a deferred tax asset of R132 million (2014: R50 million), the utilisation of which depends on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and the subsidiary has suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the group considers it probable that the deferred tax asset will be used against future taxable profits.

No deferred tax liability is recognised on temporary differences of R673 million (2014: R276 million) relating to the unremitted earnings of international subsidiaries as the group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Critical accounting estimates and judgements

The group is subject to direct taxation in a number of jurisdictions. There may be transactions and calculations where the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact earnings in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
10 PROPERTIES UNDER DEVELOPMENT		
Costs incurred on projects for third parties	807	1 023
Funding received from third parties	(807)	(1 023)
	–	–
Property developed for subsequent sale	330	252
Total	330	252
11 INSURANCE AND OTHER RECEIVABLES		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669
Insurance contract holders	2 394	2 434
Investment contract holders with DPF	9	16
Cell captives	768	688
Less: provision for impairment	(56)	(54)
Due from reinsurers	744	585
Accelerated rental income (refer to note 4)	184	128
Other	37	16
	4 080	3 813
Current	3 969	3 668
Non-current	111	145
	4 080	3 813
Impairment of receivables arising from insurance contracts and investment contracts with DPF		
Impairment is mainly due to expected payment defaults.		
12 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	10 537	16 272
Funds on deposit and other money market instruments – maturity < 90 days	15 637	12 603
	26 174	28 875

13 SHARE CAPITAL AND SHARE PREMIUM

In December 2010, Metropolitan Holdings Ltd (now MMI Holdings Ltd) became the legal parent company of Momentum Group Ltd, now MMI Group Ltd (MMIGL), by acquiring all the shares in MMIGL from FirstRand Ltd. As this was accounted for as a reverse acquisition under IFRS 3 – Business combinations (revised) – the share capital and share premium of the group in the consolidated financial statements are those of MMIGL. The equity structure in terms of the number of authorised and issued shares in the consolidated financial statements reflects the equity structure of MMI Holdings Ltd.

Authorised share capital of MMI Holdings Ltd

- 2 billion ordinary shares of 0.0001 cents each and
- 129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each.

Authorised share capital of MMIGL

- 225 million ordinary shares of 5 cents each
- 50 000 non-redeemable, non-cumulative, non-participating preference shares of 5 cents each and
- 4 104 000 convertible, participating, non-voting preference shares of 5 cents each.

Issued share capital

The issued share capital of the group reflects the issued share capital of MMI Holdings Ltd.

	2015 Rm	2014 Rm
13 SHARE CAPITAL AND SHARE PREMIUM <i>continued</i>		
Issued share capital <i>continued</i>		
Balance at beginning	13 791	13 803
Treasury shares held on behalf of contract holders	(7)	(12)
Conversion of preference shares net of share issue costs	20	–
	13 804	13 791
Share capital	9	9
Share premium	13 795	13 782
	13 804	13 791

MMI Holdings Ltd ordinary shares	2015 Million	2014 Million
Total issued MMI Holdings Ltd shares at 30 June	1 570	1 570
Conversion of preference shares	2	–
Total ordinary shares in issue	1 572	1 570
Treasury shares held on behalf of contract holders	(14)	(14)
Basic number of shares in issue	1 558	1 556
Convertible redeemable preference shares	32	34
Diluted number of shares in issue	1 590	1 590
Treasury shares held on behalf of contract holders	14	14
Diluted number of shares in issue for core headline earnings purposes	1 604	1 604

MMIGL had 190 million ordinary shares in issue at 30 June 2015 (2014: 190 million).

Preference shares

MMI Holdings Ltd had 34 million A3 preference shares in issue at the beginning of the year. The variable rate, redeemable, convertible preference shares are compound instruments with a debt and an equity component. The fair value of the equity component is disclosed under note 14 and the debt component is disclosed under note 19. On 13 November 2014 and 31 March 2015, 1 095 861 and 1 051 194 A3 preference shares, respectively, were converted into ordinary shares.

MMIGL has 50 000 non-redeemable, non-cumulative, non-participating preference shares in issue. These preference shares were acquired by MMI Holdings Ltd from FirstRand Ltd in March 2013 and have therefore been eliminated at a group level.

Dividends

For detail of dividends declared and paid during the year, refer to page 93 of the directors' report.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
14 OTHER COMPONENTS OF EQUITY		
(a) Land and building revaluation reserve	631	561
(b) Foreign currency translation reserve	181	179
(c) Revaluation of available-for-sale investments	8	3
(d) Non-distributable reserve	19	16
(e) Employee benefit revaluation reserve	78	98
(f) Fair value adjustment for preference shares issued by MMI Holdings Ltd	940	940
(g) Equity-settled share-based payment arrangements	9	5
	1 866	1 802
<i>Movements in other reserves</i>		
(a) Land and building revaluation reserve		
Balance at beginning	561	534
Earnings directly attributable to other components of equity	82	29
Revaluation	118	41
Deferred tax on revaluation	(36)	(12)
Transfer to retained earnings	(12)	(2)
Balance at end	631	561
(b) Foreign currency translation reserve		
Balance at beginning	179	139
Currency translation differences	2	40
Balance at end	181	179
(c) Revaluation of available-for-sale investments		
Balance at beginning	3	11
Fair value gain/(loss) – gross	5	(8)
Balance at end	8	3
(d) Non-distributable reserve		
Balance at beginning	16	4
Transfer from retained earnings	3	5
Other	–	7
Balance at end	19	16
(e) Employee benefit revaluation reserve		
Balance at beginning	98	–
Remeasurement of post-employment benefit obligations	(20)	98
Balance at end	78	98
(f) Fair value adjustment for preference shares issued by MMI Holdings Ltd		
Equity component of preference shares issued	940	940
This represents the write-up of the carrying value of the preference shares issued by MMI Holdings Ltd to Kagiso Tiso Holdings to fair value, as part of the fair value exercise performed on Metropolitan as a result of the merger with Momentum in December 2010.		
(g) Equity-settled share-based payment arrangements		
BEE share-based payment		
Balance at beginning	5	3
BEE cost	4	2
Balance at end	9	5

A special purpose entity (SPE) (incorporated by MMI Holdings Namibia (MMIHN) and Pinnacle Business Investments (Pinnacle), a broad-based black economic empowerment (B-BBEE) partner) owned by Pinnacle holds 3.1 million shares (19.35%) in MMIHN. MMIHN acquired preference shares in the SPE for R80 million (initial fair value of R100 million). The MMIHN shares are security for the preference share investment and for accounting purposes this is seen as an option to the SPE to buy MMIHN shares at a future date. The transaction will be settled in MMIHN shares and is therefore equity-settled in terms of IFRS 2 – Share-based payments. The option was valued at R3 million (after tax) which represents the cost of the BEE transaction. There are no services to be rendered by the B-BBEE partner over the duration of the contract. In terms of IFRS 10 – Consolidated financial instruments – the SPE is consolidated even though the group does not own the majority of the shares or voting rights. The reserve is increased by MMIHN dividends declared on the applicable shares.

	2015 Rm	2014 Rm
15 INSURANCE CONTRACTS		
15.1 Long-term insurance contracts		
<i>15.1.1 Long-term insurance contract liabilities</i>	104 038	105 509
<i>15.1.2 Liabilities to third-party cell captive owners</i>	708	530
	104 746	106 039
Capitation contracts	30	8
Total	104 776	106 047
Open-ended	16 291	7 273
Current	11 316	14 358
Non-current	77 169	84 416
	104 776	106 047
<i>Movement in long-term insurance contracts</i>		
15.1.1 Long-term insurance contract liabilities		
Balance at beginning	105 509	96 631
Transfer to policyholder liabilities under insurance contracts	(1 404)	8 219
Increase in retrospective liabilities	1 805	11 009
Unwind of discount rate	2 796	2 355
Expected release of margins	(3 205)	(2 834)
Expected cash flows	(4 002)	(5 117)
Change in economic assumptions	284	356
Change in non-economic assumptions	(374)	490
New business	1 132	2 511
Experience variances	160	(551)
Revaluation liability	14	(7)
Net exchange differences	(14)	(19)
Business combinations (refer to note 38)	20	716
Other	(87)	(31)
Balance at end	104 038	105 509
15.1.2 Liabilities to third-party cell captive owners		
Balance at beginning	530	331
Charge to the income statement	(665)	(433)
Business combinations (refer to note 38)	–	192
Premiums	3 435	2 164
Reinsurance premiums	131	34
Claims paid	(810)	(447)
Reinsurance recoveries	158	44
Changes in share capital, dividends and other items relating to cell captives	(2 071)	(1 355)
Balance at end	708	530

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
15 INSURANCE CONTRACTS <i>continued</i>		
15.2 Short-term insurance contracts		
15.2.1 Unearned premium provision	3 168	2 797
15.2.2 Outstanding claims	1 548	1 396
15.2.3 Liabilities to third-party cell captive owners	1 837	1 303
Total	6 553	5 496
Open-ended	1 600	1 304
Current	4 883	3 901
Non-current	70	291
	6 553	5 496
<i>Movement in short-term insurance contracts</i>		
15.2.1 Unearned premium provision		
Balance at beginning	2 797	–
Business combinations (refer to note 38)	39	2 954
Movement in unearned premium provision		
Premium income received	2 575	696
Recognition of premium income	(2 252)	(853)
Net exchange differences	9	–
Balance at end	3 168	2 797
15.2.2 Outstanding claims		
Balance at beginning	1 396	–
Business combinations (refer to note 38)	118	1 003
Movement in outstanding claims		
Increase in outstanding claims	37	393
Net exchange differences	(3)	–
Balance at end	1 548	1 396

	2015 Rm	Restated 2014 Rm
15.2.3 Liabilities to third-party cell captive owners		
Balance at beginning	1 303	–
Charge to the income statement	(139)	(72)
Cell tax	(250)	(110)
Net fair value gains on assets at fair value through income	111	38
Cell captive income	200	61
Business combinations (refer to note 38)	–	1 196
Premiums	3 957	1 120
Reinsurance premiums	(797)	(244)
Claims paid	(1 673)	(545)
Reinsurance recoveries	464	273
Expenses incurred	(1 040)	(343)
Dividends paid	(574)	(146)
Change in share capital	102	1
Net exchange differences	34	2
Balance at end	1 837	1 303

	2015 Rm	2014 Rm
16 INVESTMENT CONTRACTS		
16.1 Investment contracts with DPF	26 134	25 405
16.2 Investment contracts designated at fair value through income	220 356	201 651
16.2.1 Investment contract liabilities designated at fair value through income	212 072	194 362
16.2.2 Liabilities to first-party cell captive owners	8 284	7 289
Total investment contract liability	246 490	227 056
<i>Movement in investment contracts with DPF</i>		
16.1 Investment contracts with DPF		
Balance at beginning	25 405	24 937
Transfer to policyholder liabilities under investment contracts with DPF	728	468
(Decrease)/Increase in retrospective liabilities	(290)	791
Unwind of discount rate	(11)	(4)
Expected release of margins	(295)	(195)
Expected cash flows	(490)	(567)
Change in economic assumptions	5	(39)
Change in non-economic assumptions	(8)	(15)
New business	1 788	499
Experience variances	29	(2)
Revaluation liability	–	(1)
Net exchange differences	1	1
Balance at end	26 134	25 405
Open-ended	20 422	19 068
Current	753	667
Non-current	4 959	5 670
	26 134	25 405
<i>Movement in investment contracts designated at fair value through income</i>		
16.2 Investment contracts designated at fair value through income		
16.2.1 Investment contract liabilities designated at fair value through income		
Balance at beginning	194 362	158 239
Business combinations (refer to note 38)	38	1 600
Contract holder movements	17 551	34 471
Deposits received	36 173	33 221
Contract benefit payments	(32 423)	(29 631)
Fees on investment contracts	(2 063)	(1 668)
Foreign exchange movement	–	(12)
Fair value adjustment to policyholder liabilities under investment contracts	15 771	32 632
Changes in share capital, dividends and other items relating to cell captives	93	(71)
Net exchange differences	121	52
Balance at end	212 072	194 362

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	Restated 2014 Rm
16 INVESTMENT CONTRACTS <i>continued</i>		
16.2 Investment contracts designated at fair value through income <i>continued</i>		
16.2.2 Liabilities to first-party cell captive owners		
Balance at beginning	7 289	1 537
Business combinations (refer to note 38)	–	5 698
Contract holder movements	818	150
Deposits received	1 538	169
Contract benefit payments	(1 492)	(564)
Fees on investment contracts	(111)	(50)
Foreign exchange movement	–	12
Fair value adjustment to policyholder liabilities under investment contracts	268	551
Cell captive expenses	(468)	(26)
Changes in share capital, dividends and other items relating to cell captives	1 083	58
Net exchange differences	177	(96)
Balance at end	8 284	7 289
Open-ended	117 187	105 557
Current	4 084	4 473
Non-current	99 085	91 621
	220 356	201 651

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in the actuarial guidance note SAP 104 of the Actuarial Society of South Africa (ASSA). The valuation of contract holder liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on pages 112 to 116.

The assumptions are set as follows:

- The best estimate for a particular assumption is determined.
- Prescribed margins are then applied, as required by the Long-term Insurance Act of South Africa, 52 of 1998 (the act), and board notice 14 of 2010 issued in terms of the act, as well as SAP 104.
- Discretionary margins may be applied as required by the valuation methodology, or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The liabilities at 30 June 2015 would have been R13 620 million (2014: R14 161 million) lower for the group without the discretionary margins. This impact is shown gross of transfer tax.

The process used to decide on best-estimate assumptions is described below:

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out at least annually, with the most recent investigation being in respect of the period ended December 2014 for MMIGL retail businesses.
- Conventional with-profit business (excluding home service funeral business): Regular mortality investigations are carried out, with the most recent investigations being in respect of the period to December 2013 for Metropolitan Retail business and December 2014 for Momentum Retail business.
- Home service business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being for the period 2009 to 2014 for Metropolitan Retail business.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Mortality *continued*

- Annuity business: Mortality assumptions for Metropolitan Retail annuity business are based on internal experience investigations. The most recent investigation was completed in May 2015. The Momentum Retail annuitant mortality basis is derived from the RMV 92, RFV 92 and 2002 South African Annuitant standard mortality tables, adjusted for experience. The most recent investigation was carried out in 2015. Mortality assumptions for Momentum Employee Benefits annuity business is based on the 2002 South African Annuitant standard mortality tables adjusted for experience. The most recent investigation was in respect of the period to December 2014. An explicit allowance is made for mortality improvements.
- Allowance for changes in future mortality as a result of AIDS for Individual life business has been made using models compliant with the ASSA APN 105.

Morbidity

- Internal morbidity and accident investigations are done regularly, the most recent being in respect of the period ended March 2014 for Metropolitan Retail business and December 2014 for Momentum Retail and Momentum Employee Benefits business.
- For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the group's own experience.
- For individual Permanent Health Insurance business, disability claim recovery probabilities are based on recovery rates provided by reinsurers.
- For Momentum Employee Benefits business, disability claim recovery probabilities are modelled using the group long-term disability table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability. These recovery rates are then adjusted for the group's own experience.

Persistence

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends (including the effect of expected premium reviews).
- Lapse investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended December 2014.
- Surrender investigations are performed at least annually for MMIGL retail business, the most recent being in respect of the period ended December 2014 for Momentum Retail business and March 2015 for Metropolitan Retail business.
- Experience is analysed by product type as well as policy duration, distribution channel and smoker status.

Expenses

Expense assumptions are based on an expense analysis, using a functional cost approach. This analysis allocates expenses between policy and overhead expenses and within policy expenses, between new business, maintenance and claims, for both group and individual business.

- The budgeted expenses for the following year are taken as an appropriate base from which to set the expense assumptions.
- Provision for future renewal expenses starts at a level consistent with the budgeted expense for the 2016 financial year and allows for escalation at the assumed expense inflation rate of 6.8% (2014: 6.7%). An additional 1% expense inflation is assumed in respect of Momentum Retail to reflect the impact of the run-off of the closed books.
- Asset management expenses are expressed as an annual percentage of assets under management.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract holder liabilities and renewal expense inflation.
- These assumptions take into account the notional long-term asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- For non-profit annuity and guaranteed endowment business, yields of appropriate duration from an appropriate market-related yield curve as at the valuation date are used to discount expected cash flows at each duration. The yield curve used is based on fixed or CPI-linked risk-free securities and, depending on the nature of the corresponding liability, adjusted for credit and liquidity spreads of the assets actually held in the underlying portfolio.
- For other business, a single gilt rate from the government bond yield curve is used, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest 10 basis points.
- Investment returns for other asset classes are set as follows:
 - Equity rate: gilt rate + 3.5% (2014: + 3.5%)
 - Property rate: gilt rate + 1.0% (2014: + 1.0%)
 - Corporate bonds: gilt rate + 0.5% (2014: + 0.5%)
 - Cash rate: gilt rate – 1.0% (2014: – 1.0%)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment returns *continued*

- An inflation rate of 6.8% p.a. for ZAR-denominated business was used to project future renewal expenses (2014: 6.7% p.a.). This inflation rate was derived by deducting the assumed long-term real return of 1.8% (2014: 1.8%) from the risk-free rate. The assumed long-term real yield is determined with reference to the 10-year real return on CPI-linked government bonds with considerable smoothing applied to limit the volatility of this assumption.
- A rate of 7.8% p.a. (2014: 7.7% p.a.) was used for Momentum Retail business by adding an allowance for book shrinkage of 1.0% p.a. (2014: 1.0% p.a.).
- The main best-estimate investment assumptions, gross of tax, used in the valuation are:

	2015	2014
Risk discount rate	10.9%	10.8%
Gilt rate – risk-free investment return	8.6%	8.5%
Assumed investment return for individual smoothed bonus business	10.8%	10.7%
Renewal expense inflation base rate	6.8%	6.7%

Future bonuses

- Contract holders' reasonable benefit expectations are allowed for by assuming bonus rates supported by the market value of the underlying assets and the assumed future investment return.
- For smoothed bonus business, where bonus stabilisation accounts (BSAs) are negative, liabilities are reduced by an amount that can reasonably be accepted to be recovered through under-distribution of bonuses during the ensuing three years. These amounts are determined by projecting BSAs three years into the future using assumed investment returns as per the valuation basis, net of applicable taxes and charges, as well as assumed bonus rates that are lower than those supported by the assumed investment return but nevertheless consistent with the bonus philosophies of the relevant funds. The assumed bonus rates are communicated to, and accepted by, both management and the respective boards of directors.
- For conventional with-profit business, all future bonuses are provided for at bonus rates supported by the market value of the underlying assets and the assumed future investment return. Any resulting reduction in future bonus rates used in the valuation assumptions, relative to those most recently declared, is communicated to, and accepted by, both management and the respective boards of directors at each annual bonus declaration.

Investment guarantees (APN 110)

- Market-consistent stochastic models were calibrated using market data as at 30 June 2015. The value of the investment guarantee liabilities was calculated as at this date.
- APN 110 prescribes specific disclosure in respect of the market-consistent stochastic models that were used to calculate the liabilities. The disclosure is set out below.

The following table discloses specific points on the zero coupon yield curve used in the projection of the assets as at 30 June.

Year	1	2	3	4	5	10	15	20	25	30	35	40
2015	6.8	7.2	7.6	7.8	8.0	8.7	9.2	9.6	9.7	9.8	9.8	9.8
2014	6.5	7.0	7.4	7.7	7.9	8.7	9.3	9.8	10.0	10.1	10.1	10.0

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Investment guarantees (APN 110) *continued*

The following instruments have been valued by the model:

Instrument	2015		2014	
	Price (% of nominal)	Volatility	Price (% of nominal)	Volatility
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	5.6%	19.4%	4.7%	16.7%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 0.8 of spot	1.4%	24.1%	0.9%	21.1%
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.03770 (2014: 1.03930)	7.2%	18.6%	6.2%	15.9%
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	7.8%	23.2%	7.5%	22.5%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to (1.04) ⁵ of spot	13.9%	21.9%	13.6%	21.2%
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 1.26820 (2014: 1.29410)	16.6%	21.4%	16.3%	20.8%
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	2.7%	28.8%	2.8%	29.8%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to (1.04) ²⁰ of spot	11.4%	27.9%	11.5%	29.5%
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to a forward of 3.48810 (2014: 3.98730)	28.0%	27.4%	30.2%	29.5%
A 5-year put, with a strike price equal to (1.04) ⁵ of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place annually	6.3%	13.7%	6.2%	13.2%
A 20-year put on an interest rate with a strike price equal to the present 5-year forward rate at maturity of the put, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike price	0.4%	N/A	0.4%	N/A

Tax

- Future tax on investment returns is allowed for, according to current four-fund tax legislation, by appropriately reducing the gross valuation interest rate expected to be earned in the future on the various books of business.
- A long-term assumption is made for assumed future tax relief on expenses, based on past experience and expected future trends.
- No value has been attributed to any assessed losses in the contract holder tax funds.

Basis and other changes

Assumptions and methodologies used in the financial soundness valuation basis are reviewed at the reporting date and the impact of any resulting changes in actuarial estimates is reflected in the income statement as they occur.

- Basis and other changes decreased the excess of assets over liabilities at 30 June 2015 by R160 million (2014: R457 million) for the group. The major contributors to this change were as follows:
 - Actuarial methodology and other changes – negative R314 million (2014: negative R388 million).
 - Experience basis changes – positive R154 million (2014: negative R87 million). The experience basis changes are in respect of withdrawal, expense and mortality assumptions.
 - Economic assumption changes – Rnil (2014: positive R18 million). The economic assumption changes are in respect of future investment returns, bonus and inflation assumptions as well as the difference between actual and expected investment returns on non-profit business.
- The impact of changes in the valuation discount rate, consequent changes in the assumed level of renewal expense inflation or bonuses and investment over or underperformance in respect of non-linked business is included under this heading.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis

The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each instance, the specified assumption changes while all the other assumptions remain constant.

The numbers in the table demonstrate the impact on liabilities if experience deviates from best-estimate assumptions by the specified amount in all future years.

2015	Liability Rm	Renewal expenses decrease by 10% Rm	Expense inflation decreases by 1% Rm	Discontinu- ance rates decrease by 10% Rm	Mortality and morbidity decrease by 5% Rm	Investment returns reduce by 1% Rm
Insurance business						
Retail insurance business (excluding annuities)	61 865	61 200	61 141	62 165	60 210	62 214
Annuities (retail and employee benefits)	37 851	37 673	37 713	37 851	38 386	39 911
Employee benefits business (excluding annuities)	3 824	3 823	3 823	3 824	3 837	3 843
Investment with DPF business	26 073	26 054	26 064	26 074	26 072	26 133
Investment business	210 487	209 483	209 489	209 494	209 493	211 139
Subtotal	340 100	338 233	338 230	339 408	337 998	343 240
Cell captive and short-term business	17 719					
Total	357 819	338 233	338 230	339 408	337 998	343 240
2014						
Insurance business						
Retail insurance business (excluding annuities)	64 873	63 953	64 084	65 015	63 261	64 843
Annuities (retail and employee benefits)	36 037	35 803	35 930	36 035	36 364	37 635
Employee benefits business (excluding annuities)	3 609	3 603	3 606	3 606	3 614	3 669
Investment with DPF business	25 347	25 323	25 334	25 348	25 343	25 373
Investment business	192 786	192 786	192 793	192 797	192 798	194 018
Subtotal	322 652	321 468	321 747	322 801	321 380	325 538
Cell captive and short-term business	15 947					
Total	338 599	321 468	321 747	322 801	321 380	325 538

The impact of the reduction in the assumed investment return includes the consequent change in projected bonus rates, discount rates and the assumed level of renewal expense inflation.

The above sensitivities were chosen because they represent the main assumptions regarding future experience that the group employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in MMI's published embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

It is not uncommon to experience one or more of the stated deviations in any given year. There might be some correlation between sensitivities; for instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefits business because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances in this class of business can be obtained by noting that a 5% (2014: 5%) increase in mortality and morbidity lump sum benefits paid on employee benefits business in any given year will result in a reduction of R113 million (2014: R106 million) in the before-tax earnings of the group.

17 CONTRACT HOLDER LIABILITIES – ASSUMPTIONS AND ESTIMATES *continued*

Sensitivity analysis *continued*

It should be pointed out that the table shows only the sensitivity of liabilities to changes in valuation assumptions. It does not fully reflect the impact of the stated variances on the group's financial position. In many instances, changes in the fair value of assets will accompany changes in liabilities. An example of this is the annuity portfolio, where assets and liabilities are closely matched. A change in annuitant liabilities following a change in long-term interest rates will be countered by an almost equal change in the value of assets backing these liabilities, resulting in a relatively modest overall change in net asset value.

	2015 Rm	2014 Rm
18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME		
Collective investment scheme liabilities	25 869	22 313
Subordinated call notes	3 320	2 573
Carry positions	9 370	4 851
Preference shares	1 016	1 001
Other	145	63
	39 720	30 801
Current	36 418	26 414
Non-current	3 302	4 387
	39 720	30 801

- Collective investment scheme liabilities – certain collective investment schemes have been classified as investments in subsidiaries; refer to Annexure A. Consequently, scheme interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value.
- Subordinated call notes (unsecured) – the Financial Services Board (FSB) granted approval for MMIGL to raise the following debt issuances:
 - On 8 March 2006, MMIGL issued R1 billion of subordinated, unsecured callable notes, with a legal maturity date of 15 September 2020. These notes are callable by MMIGL from 15 September 2015. The notes were issued at a spread of 70 basis points over the R157 government bond yield at the time.
The coupon rate is fixed at 8.5% per annum, payable bi-annually on 15 March and 15 September, until the first call date (15 September 2015). At the first call date, a step-up of 80% of the initial credit spread will apply and interest will convert from fixed to floating, payable quarterly on 15 March, 15 June, 15 September and 15 December. MMIGL has hedged the fixed coupon rate on this liability by entering into a swap agreement with FirstRand Ltd whereby MMIGL earns interest at the same fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair valued.
 - On 17 March 2014, MMIGL issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2024. These notes are callable by MMIGL from 17 March 2019. The notes were issued at a spread of 146 basis points over the three-month JIBAR interest rate.
The coupon rate is floating at the three-month JIBAR interest rate plus 1.46% (nacq) per annum, payable quarterly on 17 March, 17 June, 17 September and 17 December, until the first call date (17 March 2019). At the first call date, the margin over the reference rate will increase to 2.46% (nacq).
 - On 17 March 2014, MMIGL issued R750 million of subordinated, unsecured callable notes, with a legal maturity date of 17 March 2026. These notes are callable by MMIGL from 17 March 2021. The notes were issued at a spread of 170 basis points over the R208 government bond yield at the time.
The coupon rate is fixed at 10.065% per annum, payable bi-annually on 17 March and 17 September, until the first call date (17 March 2021). At the first call date, the margin over the reference interest rate will increase to 270 basis points and interest will convert from fixed to floating, payable quarterly on 17 March, 17 June, 17 September and 17 December.
MMIGL has hedged the fixed coupon rate (excluding the fixed credit spread) on this liability by entering into a swap agreement with Absa Bank Ltd whereby MMIGL earns interest at a fixed coupon rate and pays interest at a floating rate. Both the interest rate swap (as disclosed under derivative financial instruments – held for hedging purposes in note 6.3) and the principal instrument have been fair valued.
 - On 1 December 2014, MMIGL issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes have a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 2.3% p.a. over the three-month JIBAR interest rate.

MMIGL has sufficient cash to cover the debt.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

18 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH INCOME *continued*

- Carry positions (secured) – In the prior year R2 592 million related to a carry position with Rand Merchant Bank that represented a sale and repurchase of assets in Momentum’s annuity portfolio. These carry positions were secured by government stock with a value of R2 797 million. These carry positions are now being managed internally. The total value of the carry positions now managed internally amounts to R6 056 million which is secured by government stock with a value of R5 884 million.
- Carry positions (secured) – R3 313 million (2014: R1 117 million) relates to a carry position reported by Momentum Asset Managers that represents a sale and repurchase of assets in Momentum’s annuity portfolio. These carry positions are secured by government stock with a value of R6 467 million (2014: R1 232 million).
- Preference shares – On 26 June 2014, MMI Strategic Investments (Pty) Ltd issued 1 000 cumulative redeemable preference shares at R1 million per share to FirstRand Ltd. The declaration of preference dividends is calculated at 77% of JIBAR plus 175 basis points and is payable on 31 March and 30 September of each year. The issuer has an option to redeem the preference shares on any dividend payment date and the ultimate redemption date is 27 June 2017.
- Included in other financial liabilities designated at fair value through income:
 - R30 million (2014: R58 million) of future contingent payments relating to Providence. Refer to note 38. The contingent future liability relates to an additional payment to be made within the next year based on the performance of the Providence group acquisition; therefore the actual amount paid could differ from the amount being provided for.
The valuation of the contingent consideration has been calculated by taking management’s best estimates of the forecasted Providence earnings before taxation, adding back depreciation and interest received multiplied by the rate agreed upon in the purchase agreement being 120%.
 - Non-controlling interests of 25% of Metropolitan Life Kenya and Cannon have the option to sell their shares from 3 October 2016 at a price linked to embedded value. In terms of IFRS, the group has recognised a financial liability of R111 million, being the present value of the estimated purchase price, for exercising this option. The group has consolidated 96% of the subsidiaries’ results and de-recognised the non-controlling interest due to the financial liability recognised above, which is in line with its selected accounting policy.

	2015 Rm	2014 Rm
19 FINANCIAL LIABILITIES AT AMORTISED COST		
Borrowings		
Cumulative redeemable convertible preference shares	293	313
Subordinated redeemable debt	–	511
Finance lease liabilities	2	2
Other	797	637
	1 092	1 463
Current	443	530
Non-current	649	933
	1 092	1 463

19.1 Cumulative redeemable convertible preference shares

Metropolitan Holdings Ltd, now MMI Holdings Ltd, had 34 381 139 A3 cumulative convertible redeemable preference shares in issue (to Kagiso Tiso Holdings (KTH), the group’s strategic BEE partner) at the beginning of the year. Dividends were payable semi-annually in arrears on 31 March and 30 September each year.

The A3 preference shares are convertible, at the option of the holder, into ordinary shares on a one-for-one basis at any time before the compulsory redeemable date of 29 June 2017. On each of 13 November 2014 and 31 March 2015, 1.1 million preference shares were converted into ordinary shares. The ordinary shares were originally issued at a price of R10.18 per share. An annual dividend of 132 cents per share is still payable on the remaining preference shares semi-annually in arrears on 31 March and 30 September each year. In the prior year, the group took over as a funder for the duration of this extension by acquiring preference shares in a KTH subsidiary (refer to note 7). The extension has been accounted for as a renegotiation of the original agreement and not as a settlement as the effect of the change was not significant. There was also no IFRS 2 cost resulting from this extension.

The equity component of the preference shares is included in note 14(f).

19 FINANCIAL LIABILITIES AT AMORTISED COST *continued*

19.2 Subordinated redeemable debt

The FSB granted approval for Metropolitan Life Ltd to raise debt on 10 November 2006. Metropolitan Life Ltd issued R500 million unsecured subordinated notes in December 2006 with a nominal value of R1 million per note, at 99.7% of the nominal amount. The notes were mixed rate notes with an optional conversion from fixed rate to floating rate after eight years and compulsory redemption after a further five years. The fixed coupon rate is 9.25% per annum, and both the fixed and floating rate payment dates are 15 June and 15 December from issue date (15 December 2006). The issuer had the option to redeem the debt from 15 December 2014 and the ultimate maturity date was 15 December 2019. The debt was redeemed on 15 December 2014.

19.3 Other

Included in other financial liabilities at amortised cost is:

- a R489 million (2014: R463 million) loan from FirstRand Bank Ltd in order to develop property held by a subsidiary, 102 Rivonia (Pty) Ltd. Interest on the loan is levied at the prime rate minus 1%. The loan is secured by the underlying property.
- a R153 million (2014: Rnil) loan from Absa Bank Ltd in order to develop property held by a subsidiary. Interest on the loan is levied at the prime rate. The loan is secured by the underlying property.

	2015 Rm	Restated 2014 Rm
20 REINSURANCE CONTRACT LIABILITIES		
Balance at beginning	202	–
Change in liabilities under reinsurance agreements	457	202
New financial reinsurance agreements	467	178
Change in estimates	(10)	24
Balance at end	659	202
Current	140	3
Non-current	519	199
	659	202

The reinsurance liability relates to a financial reinsurance agreement with a registered reinsurer, whereby the reinsurer provided upfront funding to cells within Guardrisk and Momentum Ability. The cells then repay this funding over an agreed term and the liability associated with this repayment is disclosed above. Refer to note 17 for relevant assumptions and estimates applied in valuation of the reinsurance liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS						
21.1 Employee benefit assets 2015						
Present value of funded obligation	-	-	-	(2)	-	(2)
Fair value of plan assets	-	230	116	62	3	411
	-	230	116	60	3	409
Applied limit	-	-	-	(1)	-	(1)
Net asset recognised	-	230	116	59	3	408
<i>Movement in present value of funded obligation</i>						
Balance at beginning	-	1	-	18	-	19
Interest expense	-	-	-	1	-	1
Recognised in other comprehensive income	-	-	-	(1)	-	(1)
Settlements	-	(1)	-	(16)	-	(17)
Balance at end – current	-	-	-	2	-	2
<i>Movement in fair value of plan assets</i>						
Balance at beginning	1	218	117	85	6	427
Derecognition of retirement fund asset	-	-	-	(11)	-	(11)
Return on plan assets	-	20	10	10	1	41
Recognised in other comprehensive income	(1)	(3)	(3)	(7)	-	(14)
Employer contributions	-	-	(8)	-	-	(8)
Benefits paid	-	(5)	-	-	(10)	(15)
Settlements	-	-	-	(15)	-	(15)
Other	-	-	-	-	6	6
Balance at end	-	230	116	62	3	411
Current	-	-	8	3	-	11
Non-current	-	230	108	59	3	400
	-	230	116	62	3	411

	SSPF Rm	SGPF Rm	MSRF Rm	MSPF Rm	Other Rm	Total Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS						
<i>continued</i>						
21.1 Employee benefit assets						
<i>continued</i>						
2014						
Present value of funded obligation	–	(1)	–	(18)	–	(19)
Fair value of plan assets	1	218	117	85	6	427
	1	217	117	67	6	408
Applied limit	–	–	–	(3)	–	(3)
Net asset recognised	1	217	117	64	6	405
<i>Movement in present value of funded obligation</i>						
Balance at beginning	3	2	–	458	2	465
Interest expense	–	–	–	16	–	16
Past service costs and losses on settlements expensed	–	–	–	107	–	107
Recognised in other comprehensive income	3	–	–	(8)	(1)	(6)
Benefits paid	(6)	(1)	–	(13)	(1)	(21)
Settlements	–	–	–	(542)	–	(542)
Balance at end	–	1	–	18	–	19
Current	–	–	–	18	–	18
Non-current	–	1	–	–	–	1
	–	1	–	18	–	19
<i>Movement in fair value of plan assets</i>						
Balance at beginning	7	205	112	229	13	566
Recognition of retirement fund asset	–	–	–	389	–	389
Return on plan assets	–	19	3	(44)	1	(21)
Recognised in other comprehensive income	–	(4)	12	27	(3)	32
Employer contributions	–	–	(10)	–	(2)	(12)
Benefits paid	(6)	(2)	–	26	(3)	15
Settlements	–	–	–	(542)	–	(542)
Balance at end	1	218	117	85	6	427
Current	–	–	4	17	–	21
Non-current	1	218	113	68	6	406
	1	218	117	85	6	427

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

MMI Group Retirement Scheme (MGRS)

With effect from 1 July 2013, the majority of the Momentum and Metropolitan staff of the funds below converted to the MGRS. The MGRS is a defined contribution fund. Contributions for the current year are included in note 32.

Momentum Staff Pension Funds

All full-time employees in the ex-Momentum group (MMIGL and its subsidiaries before the merger with Metropolitan) are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act, 24 of 1956. The Southern Staff Pension Fund (SSPF), Sage Group Pension Fund (SGPF) and Momentum Life Pension Fund (MLPF) (which is included in Other on page 158 and page 159) are final salary defined benefit plans. The SSPF no longer has any assets in the fund and is in the process of being deregistered. A section 14 application for the SGPF is pending and it is expected that the fund will be liquidated or deregistered within the next financial year. The MLPF was liquidated during the current financial year.

MMIGL, as the employer, and the employees also contribute to the defined contribution staff pension fund. The employee is paid his share of the fund at the benefit date. The group has no liability relating to this scheme.

The key valuation assumptions for the Momentum SPFs are:

Assumptions	Base assumption
Discount rate	9.0% (2014: 9.0%)
Expected rate of return on plan assets	9.0% (2014: 9.0%)
Salary inflation rate	7.0% (2014: 6.0% – 7.0%)
Net post-retirement interest rate	2.0% (2014: 2.0%)
Normal retirement age	60 – 65 years
Mortality	
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up by 10 years

Metropolitan Staff Retirement Fund (MSRF)

The MSRF is a defined contribution arrangement with two separately registered sections: pension and provident. Members contribute at a fixed percentage of salary to the pension fund section and the employer contributes to the provident fund section. The employer's share of the surplus in the old defined benefit fund, which was transferred to the defined contribution fund on 1 April 1999, was kept in the employer contribution subsidy reserve account until 1 April 2002 (the surplus apportionment date). The surplus apportionment scheme of the provident section was approved by the FSB in June 2008. The surplus has been transferred to the Employer Surplus Account (ESA), which is being used by the employer to subsidise contributions to the fund. The pension fund section submitted a nil return that was noted by the FSB. The fair value of the plan assets represents the balance of the ESA valued at market value at year-end.

Metropolitan Staff Pension Fund (MSPF)

This defined benefit scheme has been closed to new members since 1 April 1999. MMIGL is required to meet the balance of the cost of providing the fund benefits as recommended by the valuator on the basis of the ongoing triennial statutory actuarial valuations. A nil return was noted by the FSB in October 2005. Subsequent to the surplus apportionment date (1 April 2002), a surplus has emerged in the fund. During the 2014 financial year the majority of the remaining active members transferred to other retirement fund arrangements in the group and the pensioners were transferred to an insured arrangement due in part to the employer's decision to consolidate the provision of retirement and insurance benefits. During the 2015 financial year, almost all the remaining active members were transferred out to other retirement fund arrangements; the balance will be transferred in the 2016 financial year. The intention is to wind-up the fund during the next financial year. The liability at 30 June 2015 is based on the transfer value of the remaining active members. Fair value of the plan assets is determined with reference to the approximate rate of investment return earned by the fund until June 2015. A limit was applied to the net plan assets in terms of IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, based on the balance of the ESA of the MSPF.

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.1 Employee benefit assets *continued*

The key valuation assumptions for the MSRF and MSPF are:

Assumptions	Base assumption
Valuation rate of interest	9% (2014: 9%)
Expected rate of return	9% – based on the valuation rate of interest (2014: 9%)
Salary inflation rate	N/A (2014: 7%)
Net post-retirement interest rate	N/A (2014: 3%)
Normal retirement age	60 – 65 years
Mortality	
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years

The assets of these schemes are held in separately administered funds. The assets of MLPF, SSPF, and MSRF comprise of cash and cash equivalents.

SGPF and MSPF comprise of the following:

The plan assets as a percentage (%) comprise:	2015		2014	
	SGPF	MSPF	SGPF	MSPF
Equity securities – quoted (active market)	–	18	–	2
Debt securities				
Quoted (active market)	–	12	–	2
Quoted (inactive market) and unquoted	–	22	–	17
Property	–	3	–	–
Foreign assets – quoted (active market)	–	–	–	1
Foreign assets – quoted (inactive market) and unquoted	–	6	–	–
Cash and cash equivalents	97	39	96	78
Insurance policy	3	–	4	–
	100	100	100	100

Income statement movement and future contributions

The total movement of R42 million (2014: R66 million) is recognised in the income statement in employee benefit expenses (refer to note 32). Future employer contributions are estimated to be minimal given the planned wind-up of the MSPF in the following year.

	2015 Rm	2014 Rm
21.2 Employee benefit obligations		
(a) Post-retirement medical benefits	322	299
(b) Cash-settled arrangements	645	521
(c) Other employee benefit obligations	768	426
Total employee benefit obligations	1 735	1 246
Current	813	448
Non-current	922	798
	1 735	1 246

Employee benefit expenses are included in the income statement. Refer note 32.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS <i>continued</i>		
21.2 Employee benefit obligations <i>continued</i>		
(a) Post-retirement medical benefits		
Balance at beginning – unfunded	299	279
Business combinations (refer to note 38)	8	–
Current service costs	2	1
Interest expense	26	24
Actuarial losses	9	15
Employer contributions	(16)	(16)
Benefits paid	(6)	(4)
Balance at end – unfunded	322	299
Current	26	21
Non-current	296	278
	322	299

Valuation methodology

Liabilities for qualifying employees and current retirees are taken as the actuarial present value of all future medical contribution subsidies, using the long-term valuation assumptions. The current medical scheme contribution rates are projected into the future using the long-term healthcare inflation rate, while the value of the portion subsidised by the employer after retirement is discounted back to the valuation date using the valuation rate of interest. The projected unit credit method is used to calculate the liabilities.

The key valuation assumptions are:

Assumptions	Base assumption	Change in value of liability		
		Change in significant assumption	Decrease in significant assumption Rm	Increase in significant assumption Rm
Healthcare cost inflation rate				
Defined benefit fund	8% (2014: 8%)	4%	(24)	29
Defined contribution fund	8% (2014: 8%)	1%	(10)	12
Valuation rate of interest/discount rate	9% (2014: 9%)			
Administration fee inflation	7% (2014: 7%)			
Normal retirement age	60 – 62 years			
Mortality				
Pre-retirement	SA 72-77 ultimate, with female rates equal to 70% of male rates			
Post-retirement	PA(90) minus 2, with ill-health (disability) retirements rated up to 10 years			

The weighted average duration of the post-retirement medical benefits obligation is 14.2 years (2014: 14.5 years).

	2015 Rm	2014 Rm
21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS <i>continued</i>		
21.2 Employee benefit obligations <i>continued</i>		
(b) Cash-settled arrangements		
Retention and remuneration schemes		
Balance at beginning	521	368
Additional provisions	456	391
Benefits paid	(332)	(238)
Balance at end	645	521
Current	358	277
Non-current	287	244
	645	521

Momentum share schemes

The ex-Momentum group had various cash-settled share schemes in place at the time of the merger with Metropolitan in December 2010.

Momentum Sales Scheme (MSS)

The Momentum Sales Scheme was set up specifically for the benefit of the sales staff. Allocations were made twice a year to sales staff reaching a certain minimum production level. The qualification criteria are reviewed annually. The benefits are linked to the value of MMI Holdings Ltd shares. Allocations made vest equally over the third, fourth and fifth anniversary. In November 2013 it was decided to no longer issue options under this scheme. The previous grants of share options will run out over the relevant term pertaining to the specific grants. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme remains cash-settled.

Momentum Conditional Share Plan (MomCSP)

The purpose of the MomCSP was to serve as a substitution scheme for certain schemes that Momentum employees participated in prior to the merger between Metropolitan and Momentum.

Certain ex-Momentum employees had awards relating to FirstRand schemes. The CSP allowed the group to make conditional awards to these employees in substitution for their rights under the FirstRand schemes, in order to retain their services and to encourage them to build up a shareholding in the group and thus increase the alignment of their interests with the interests of the other shareholders of MMI Holdings Ltd. Awards vested equally over the third, fourth and fifth anniversary. The scheme was cash-settled and no MMI Holdings Ltd shares has been issued in settlement of this obligation. The final tranche (30 000 units) was redeemed in November 2014.

MMI share schemes

Subsequent to the merger, the group started share schemes linked to MMI Holdings Ltd shares.

MMI Long-term Retention Award Scheme (MMI LTRAS)

The purpose of this scheme was to attract, retain, motivate and reward eligible employees who are able to influence the performance of the group and to give such employees an incentive to advance the group's interests for the ultimate benefit of all its stakeholders.

The MMI LTRAS was a phantom scheme in that a participant was not entitled to MMI shares but rather to a cash sum from the employer calculated on the basis of the number of participation units which vested at the fair market price of an MMI share (average of 20 trading days before the vesting date).

The award date was 1 January 2011 and the vesting date was either 1 December 2013 or 1 December 2014.

The cash sum was only paid out if the employee remained in the employ of the group for the full vesting period and if certain performance criteria (as determined by the board from time to time) had been met.

MMI Long-term Incentive Plan (MMI LTIP)

Certain key senior staff members were identified as vital to the future success of the group, and its ability to compete in an ever-changing environment. The purpose of the MMI LTIP is to incentivise and retain these key senior staff members. The MMI LTIP comprises two separate long-term incentives, the first being an award of performance units, and the second being a grant of retention units.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

MMI share schemes continued

MMI Long-term Incentive Plan (MMI LTIP) *continued*

The performance units have performance criteria based on minimum hurdles related to the return on embedded value of the group. The units will therefore vest after a period of three years, and the group's performance will be averaged over the same period to determine whether the criteria have been met.

The retention units have no imposed performance criteria and therefore vest on award date, subject to the employee maintaining satisfactory performance during the period between the award date and the settlement date. When the retention units and performance units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMI share (average of 20 trading days before the settlement date).

Momentum Sales Phantom Shares (MSPS)

In November 2013, Momentum Sales issued phantom shares to sales staff. Allocations made will vest in three equal tranches on the third, fourth and fifth anniversary, after the grant date. When the shares vest, the group will make a cash payment to the employee to the value of the share price on vesting date. No shares are issued by the group and therefore the scheme is cash-settled.

MMI Outperformance Plan (MMI OP)

The purpose of the plan is to motivate, reward and retain a small group of senior executives on a basis which aligns their interests with the group's targeted Return on Embedded Value (ROEV) of Nominal GDP +6%. Participants are primarily awarded performance units (vesting subject to certain group and individual performance criteria being met), whilst participants that are responsible for risk management functions are awarded retention units (vesting subject to the individual's performance criteria being met).

The plan is a phantom incentive plan in that a participant shall not be entitled to MMI shares but rather to a cash sum from the employer calculated on the basis of the number of units which vest at the fair value market price of an MMI share (weighted average of 20 trading days before vesting date). Vesting of the performance units is dependent on the achievement of a minimum ROEV of Nominal GDP +3% per annum over the vesting period, with 100% vesting achieved if the ROEV meets or exceeds Nominal GDP +6% per annum.

The units were awarded on 5 March 2015 and have a final vesting date of 1 October 2019.

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

MSS	2015 '000	2014 '000
Options in force at 1 July	12 442	14 949
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 2 256
Options exercised/released during year	(3 134)	(1 307)
Market value of range at date of exercise/release (cents)	2 656 – 3 290	2 255 – 2 471
Options cancelled/lapsed during year	(453)	(1 200)
Granted at prices ranging from (cents)	1 699 – 2 100	1 306 – 2 256
Options in force at 30 June	8 855	12 442
Granted at prices ranging from (cents)	1 306 – 2 256	1 306 – 2 256
Units outstanding (by expiry date) for MSS are as follows:		
Financial year 2014/2015	–	3 100
Financial year 2015/2016	3 963	4 169
Financial year 2016/2017	3 228	3 427
Financial year 2017/2018	1 664	1 746
Total outstanding shares	8 855	12 442
	2015	2014
Valuation assumptions of MSS:		
Share price	R29.82	R26.15
Volatility	10.00% – 11.90%	9.85% – 13.12%
Dividend yield	4.40%	5.09%
Forfeiture rate	5.00%	5.00%
Risk-free yield curve	5.50% – 7.10%	4.71% – 7.24%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

	MomCSP	MMI LTRAS
	'000	'000
Units in force at 1 July 2013	1 425	8 033
Units granted during year	–	–
Units exercised/released during year	(1 379)	(7 483)
Market value of range at date of exercise/release (cents)	2 181 – 2 690	2 530
Units cancelled/lapsed during year	(16)	(306)
Units in force at 1 July 2014	30	244
Units granted during year	–	–
Units exercised/released during year	(30)	(244)
Market value of range at date of exercise/release (cents)	2 720	3 077
Units cancelled/lapsed during year	–	–
Units in force at 30 June 2015	–	–

Units outstanding (by expiry date) for the MMI LTIP, MSPS and MMI OP at 30 June 2015 are as follows:

2015
Financial year 2015/2016
Financial year 2016/2017
Financial year 2017/2018
Financial year 2018/2019
Financial year 2019/2020
Total outstanding shares

Valuation assumptions relating to outstanding units at 30 June:

MMI LTIP 2015	Retention units					
	2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche	7th tranche
Award date	01 Nov 12	02 Apr 13	15 Oct 13	05 Mar 14	02 May 14	25 Sep 14
Vesting date	01 Nov 15	02 Apr 16	15 Oct 16	05 Mar 17	02 May 17	25 Sep 16
Outstanding units (thousands)	4 421	71	4 535	1 009	154	553
Valuation assumptions include:						
Outstanding tranche period in years	0.33	0.75	1.29	1.67	1.83	1.25
Take-up rate on units outstanding	94%	94%	88%	88%	88%	88%
Current vesting rate	100%	100%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15

2014	Retention units					
	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche
Award date	01 Oct 11	01 Nov 12	02 Apr 13	15 Oct 13	05 Mar 14	02 May 14
Vesting date	01 Oct 14	01 Nov 15	02 Apr 16	15 Oct 16	05 Mar 17	02 May 17
Outstanding units (thousands)	4 327	4 743	67	4 721	970	145
Valuation assumptions include:						
Outstanding tranche period in years	0.25	1.33	1.75	2.29	2.67	2.83
Take-up rate on units outstanding	94%	88%	88%	82%	82%	82%
Current vesting rate	100%	100%	100%	100%	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 26.18	R 26.25	R 26.25	R 26.25	R 26.25	R 26.25

	MMI LTIP		MSPS	MMI OP	
	Retention units '000	Performance units '000		Retention units '000	Performance units '000
	9 799	13 328	–		
	6 278	7 201	1 749		
	(47)	(38)	–		
	2 080 – 2 563	2 080 – 2 563	–		
	(1 057)	(823)	–		
	14 973	19 668	1 749	–	–
	6 886	7 239	2 385	187	10 204
	(4 470)	(6 140)	–	–	–
	2 569 – 3 373	2 569 – 3 373	–	–	–
	(1 314)	(2 138)	(251)	–	(93)
	16 075	18 629	3 883	187	10 111

	MMI LTIP		MSPS	MMI OP	
	Retention units '000	Performance units '000		Retention units '000	Performance units '000
	4 492	6 218	–	–	–
	6 251	6 274	543	–	–
	5 332	6 137	1 294	–	–
	–	–	1 294	112	6 067
	–	–	752	75	4 044
	16 075	18 629	3 883	187	10 111

	Retention units		Performance units					
	8th tranche	9th tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche	7th tranche
	01 Oct 14	01 Apr 15	01 Nov 12	02 Apr 13	15 Oct 13	02 May 14	01 Oct 14	01 Apr 15
	01 Oct 17	01 Apr 18	01 Nov 15	02 Apr 16	15 Oct 16	02 May 17	01 Oct 17	01 Apr 18
	5 314	18	6 123	95	5 580	694	6 124	13
	2.25	2.75	0.33	0.75	1.29	1.83	2.25	2.75
	82%	82%	94%	94%	88%	88%	82%	82%
	100%	100%	100%	100%	100%	100%	125%	125%
	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15	R 30.15

	Performance units				
	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche
	01 Oct 11	01 Nov 12	02 Apr 13	15 Oct 13	02 May 14
	01 Oct 14	01 Nov 15	02 Apr 16	15 Oct 16	02 May 17
	6 054	6 797	90	5 972	755
	0.25	1.33	1.75	2.29	2.83
	94%	88%	88%	82%	82%
	100%	100%	100%	100%	100%
	R 26.25	R 26.25	R 26.25	R 26.25	R 26.25

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

Valuation assumptions relating to outstanding units at 30 June *continued*

Vesting rate assumptions regarding performance units in the table on the previous page:

As stated on page 164, the performance units in the MMI LTIP are subject to performance criteria. These performance criteria have been set as detailed in the Remuneration Report set out on page 64 of this integrated report.

For tranches allocated prior to 1 October 2014, there are two performance criteria, the first being an absolute targeted Return on Embedded Value (ROEV) of nominal GDP +3% average over the vesting period. The second criteria is an ROEV Index measure which compares MMI's average ROEV to that of its peer group over the vesting period.

The vesting rate assumption regarding the absolute ROEV target is determined with reference to MMI's forecasted ROEV over the remaining vesting period, relative to the expected nominal GDP growth. The vesting rate assumption regarding the ROEV Index, for tranches allocated prior to 1 October 2014, is determined with reference to MMI's expected ROEV relative to its peers based on actual published ROEV data. Due to the volatility in the valuation model, only once reliable evidence exists that a vesting rate assumption of more than 100% is likely to be achieved, will the vesting rate assumption be adjusted upward. For each 1% outperformance of the average ROEV of the peer group, the vesting percentage increases by 15%, subject to a maximum additional vesting of 150% of the allocated performance units. Each 1% outperformance of the average ROEV of the peer group would result in an increase of R34 million in the liability under cash-settled arrangements at 30 June 2015 (2014: R40 million).

For all tranches allocated from 1 October 2014 onwards, the vesting rate assumption regarding the ROEV Index is linked to the group's absolute ROEV target of nominal GDP +3% per annum and an outperformance target of nominal GDP +6% per annum. The peer group measure has been removed. The vesting rate assumption is determined with reference to MMI's actual ROEV relative to the targeted and outperformance growth. Again due to volatility in the valuation model, only once reliable evidence exists that the vesting rate assumption of more than 100% is likely to be achieved, will the vesting rate assumption be adjusted upward. For each 1% outperformance of the average ROEV of nominal GDP +3%, the vesting percentage increases by 33%, subject to a maximum additional vesting of 100% of the allocated performance units. Each 1% outperformance of the average ROEV of nominal GDP +3% would result in an increase of R21 million in the liability under cash-settled arrangements at 30 June 2015.

The 6% per annum participant attrition rate assumption is also applied to the performance units.

MSPS 2015	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	6th tranche
Award date	01 Nov 13	01 Nov 13	01 Nov 13	01 Mar 14	01 Mar 14	01 Mar 14
Vesting date	01 Nov 16	01 Nov 17	01 Nov 18	01 Mar 17	01 Mar 18	01 Mar 19
Outstanding units (thousands)	531	531	531	12	12	12
Valuation assumptions include:						
Outstanding tranche period in years	1.33	2.33	3.33	1.67	2.67	3.67
Take-up rate on units outstanding	100%	100%	100%	100%	100%	100%
Current vesting rate	95%	95%	95%	95%	95%	95%

2014	1st tranche	2nd tranche	3rd tranche
Award date	01 Nov 13	01 Nov 13	01 Nov 13
Vesting date	01 Nov 16	01 Nov 17	01 Nov 18
Outstanding units (thousands)	583	583	583
Valuation assumptions include:			
Outstanding tranche period in years	2.33	3.33	4.33
Take-up rate on units outstanding	100%	100%	100%
Current vesting rate	95%	95%	95%

7th tranche	8th tranche	9th tranche	10th tranche	11th tranche	12th tranche	13th tranche	14th tranche	15th tranche
01 Oct 14 01 Oct 17 104	01 Oct 14 01 Oct 18 104	01 Oct 14 01 Oct 19 104	01 Nov 14 01 Nov 17 571	01 Nov 14 01 Nov 18 571	01 Nov 14 01 Nov 19 571	01 Mar 15 01 Mar 18 77	01 Mar 15 01 Mar 19 77	01 Mar 15 01 Mar 20 77
2.25	3.25	4.25	2.33	3.33	4.33	2.67	3.67	4.67
100%	100%	100%	100%	100%	100%	100%	100%	100%
95%	95%	95%	95%	95%	95%	95%	95%	95%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

21 EMPLOYEE BENEFIT ASSETS AND OBLIGATIONS *continued*

21.2 Employee benefit obligations *continued*

(b) Cash-settled arrangements *continued*

Valuation assumptions relating to outstanding units at 30 June *continued*

MomCSP, MMI LTRAS, and MMI OP

2015	MMI OP			
	Retention units		Performance units	
	1st tranche	2nd tranche	1st tranche	2nd tranche
Award date	05 Mar 15	05 Mar 15	05 Mar 15	05 Mar 15
Vesting date	01 Oct 18	01 Oct 19	01 Oct 18	01 Oct 19
Outstanding units (thousands)	112	75	6 066	4 044
Valuation assumptions include:				
Outstanding tranche period in years	3.25	4.25	3.25	4.25
Take-up rate on units outstanding	100%	100%	20%	20%
Current vesting rate	76%	70%	76%	70%

2014	Mom CSP	MMI LTRAS
	5th tranche	2nd tranche
Award date	03 Nov 08	01 Jan 11
Vesting date	03 Nov 14	01 Dec 14
Outstanding units (thousands)	30	244
Valuation assumptions include:		
Outstanding tranche period in years	0.33	0.42
Take-up rate on units outstanding	94%	94%
Current vesting rate	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	R 26.18	R 26.18

Tranches vested during the current or prior year

MMI LTIP: The first tranche of the MMI LTIP was settled in October 2014 at R29.07 per share totalling R277 million.

MomCSP: The fifth tranche of the MomCSP was settled in November 2014 at R27.20 per share totalling R1 million.

MMI LTRAS: The second tranche of the MMI LTRAS was settled in December 2014 at R30.77 per share at a 100% vesting rate totalling R189 million.

Share-based payment expense

The share-based payment expense relating to cash-settled schemes is R456 million (2014: R391 million) for the group and is disclosed under employee benefit expenses in note 32.

	2015 Rm	2014 Rm
22 OTHER PAYABLES		
Payables arising from insurance contracts and investment contracts with DPF	4 283	3 925
Claims in process of settlement		
Insurance contracts	1 838	1 576
Investment contracts with DPF	135	154
Premiums paid in advance	1 818	1 529
Due to reinsurers	492	666
Payables arising from investment contracts	1 451	1 025
Deferred revenue liability	409	360
Financial instruments	7 919	5 127
Collective investment scheme income distribution payable	636	218
Unsettled trades	3 187	992
Commission creditors	573	550
Other payables	3 523	3 367
	14 062	10 437
Current	13 612	10 163
Non-current	450	274
	14 062	10 437
Reconciliation of deferred revenue liability		
Balance at beginning of year	360	257
Deferred income relating to new business	113	101
Business combinations (refer to note 38)	–	83
Amount recognised in income statement (refer to note 27)	(64)	(81)
Balance at end of year	409	360

	2015 Rm	2014 Rm
23 PROVISIONS		
Balance at beginning of year	157	180
Additional provisions	52	245
Utilisation of provisions	(84)	(230)
Unutilised amounts reversed	(43)	(38)
Exchange differences	(4)	–
Balance at end of year	78	157
Current	9	153
Non-current	69	4
	78	157

The provisions relate to individually small items with no single significant amount.

24 NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE		
Non-current assets held for sale		
Balance at beginning of year	17	680
Disposals	(17)	(663)
Balance at end of year	–	17

The non-current assets held for sale balance in the prior year related to investment properties which were pending transfer.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	Restated 2014 Rm
25 INCOME TAX		
25.1 Current income tax (assets)/liabilities		
Current income tax assets	(365)	(330)
Current income tax liabilities	166	255
	(199)	(75)
Balance at beginning	(75)	159
Charged to income statement	2 638	2 433
Additional provisions	1 830	2 311
Additional prior year provisions	–	2
Tax attributable to cell captive owners	808	120
Paid during year	(2 752)	(2 939)
Business combinations (refer to note 38)	(13)	268
Other	3	4
Balance at end	(199)	(75)
25.2 Income tax expenses/(credits)		
Current taxation	2 638	2 433
Shareholder tax		
South African normal tax – current year	1 363	1 278
South African normal tax – prior year	(2)	(38)
Foreign countries – normal tax	85	69
Foreign withholding tax	101	27
Contract holder tax		
Tax on contract holder funds – current year	283	440
Tax on contract holder funds – prior year	–	156
Tax attributable to cell captive owners	808	501
Deferred tax	(207)	25
Shareholder tax		
South African normal tax – current year	(326)	(316)
South African normal tax – prior year	–	8
Foreign countries – normal tax	2	3
Contract holder tax		
Tax on contract holder funds – current year	72	437
Tax on contract holder funds – prior year	–	(172)
Tax attributable to cell captive owners	45	65
	2 431	2 458

	2015 %	Restated 2014 %
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Prior year adjustments	0.1	(0.6)
Taxation on contract holder funds	8.3	14.6
Foreign tax differential	(1.7)	(2.0)
Capital gains tax	0.7	(0.8)
Non-taxable income	(8.1)	(5.8)
Non-deductible expenses	6.1	1.3
Tax losses for which no deferred tax asset was recognised	2.2	0.6
Cell captive tax – to be recovered from cell owners	11.2	8.9
Other	(1.5)	(1.5)
Effective rate	45.3	42.7

2014 reclassification

R381 million has been reclassified from current year tax on contract holder funds to tax attributable to cell captive owners to better reflect the nature thereof.

	2015 Rm	2014 Rm
26 NET INSURANCE PREMIUMS		
Premiums received	35 297	28 118
Long-term insurance contracts	23 534	21 956
Health premiums	1 201	755
Investment contracts with DPF	3 432	2 577
Short-term insurance	7 130	2 830
Premiums received ceded to reinsurers	(7 901)	(4 980)
	27 396	23 138
Included in the above is R8 226 million (2014: R5 046 million) premiums and R5 902 million (2014: R3 286 million) reinsurance relating to cell captives.		
27 FEE INCOME		
Contract administration	2 225	1 772
Investment contract administration	2 153	1 691
Release of deferred front-end fees	72	81
Trust and fiduciary services	1 842	2 014
Asset management	589	615
Asset administration	516	677
Retirement fund administration	737	722
Health administration	2 053	1 978
Other income	1 235	803
Administration fees received	170	41
Multiply fee income	288	258
Cell captive fee income	346	95
Cell captive deferred front-end fees	(8)	–
Other	439	409
	7 355	6 567
Contract revenue recognised for the year amounts to R58 million (2014: R56 million) and is included in asset administration fees above.		
28 INVESTMENT INCOME		
Designated at fair value through income		
Dividend income – listed	2 551	2 219
Dividend income – unlisted	642	899
Interest income	11 410	10 079
Designated at fair value through income	10 116	8 805
Available-for-sale	29	39
Held-to-maturity	9	5
Loans and receivables	234	228
Cash and cash equivalents	1 022	1 002
Rental income	939	844
Investment properties	930	828
Owner-occupied properties	9	16
Other income	17	2
	15 559	14 043

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
29 NET REALISED AND FAIR VALUE GAINS		
Financial assets	15 839	43 402
Designated at fair value through income	16 422	43 526
Derivative financial instruments – losses	(615)	(165)
Net realised and unrealised foreign exchange differences on financial instruments not designated at fair value through income	32	41
Financial liabilities		
Designated at fair value through income	4	(20)
Investment property	383	541
Valuation gains	439	572
Change in accelerated rental income	(56)	(31)
Other investments	22	(17)
	16 248	43 906
30 NET INSURANCE BENEFITS AND CLAIMS		
Long-term insurance contracts	19 528	17 943
Death and disability claims	8 136	7 094
Maturity claims	4 802	5 148
Annuities	3 236	2 553
Surrenders	2 935	2 769
Terminations and withdrawal benefits	419	379
Health and capitation benefits incurred	996	538
Short-term insurance benefits incurred	4 022	1 360
Short-term insurance change in provision for outstanding claims	40	289
Investment contracts with DPF	4 050	4 197
Death and disability claims	36	50
Maturity claims	701	866
Annuities	157	58
Surrenders	331	401
Terminations and withdrawal benefits	2 825	2 822
	28 636	24 327
Amounts recovered from reinsurers	(4 026)	(2 006)
	24 610	22 321
Included in the above is R4 474 million (2014: R1 897 million) claims and R2 465 million (2014: R815 million) reinsurance relating to cell captives.		
31 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES		
Depreciation (refer to notes 2 and 3)	250	229
Owner-occupied properties	61	44
Equipment	189	185
Amortisation (refer to note 1)	1 044	889
Value of in-force business acquired	330	321
Customer relationships	465	393
Brands	62	57
Broker network	49	34
Computer software	138	84
Impairment of intangible assets (refer to note 1)	19	24
Customer relationships	2	–
Computer software	17	24
Impairment of property, plant and equipment (refer to note 3)	–	1
Equipment	–	1
Impairment of financial assets	13	16
Loans and receivables	13	16
	1 326	1 159

	2015 Rm	2014 Rm
32 EMPLOYEE BENEFIT EXPENSES		
Salaries	4 704	3 919
Contributions to medical aid funds	201	192
Defined benefit retirement fund	1	3
Defined contribution retirement fund	274	239
Post-retirement medical benefits	13	2
Retirement fund assets (refer to note 21.1)	(42)	66
Share-based payment expenses – Cash-settled arrangements (refer to note 21.2(b))	456	391
Current service costs – International subsidiaries' share schemes	59	8
Training costs	159	136
Other	97	176
	5 922	5 132
For detail of directors' and prescribed officers' emoluments, refer to pages 65 to 67 of the corporate governance report.		
33 SALES REMUNERATION		
Commission incurred for the acquisition of insurance contracts	3 732	2 890
Commission incurred for the acquisition of investment contracts with DPF	880	713
Amortisation of deferred acquisition costs	391	267
Movement in provision for impairment of amounts due from agents, brokers and intermediaries	68	29
	5 071	3 899
34 OTHER EXPENSES		
Administration fees paid – binder and outsourcing fees	73	47
Asset management fees	1 739	1 423
Auditors' remuneration	84	73
Audit fees	75	66
Fees for other services	9	7
Bad debts written off	10	10
Bank charges	69	64
Consulting fees	399	423
Direct property operating expenses on investment property	288	273
Information technology expenses	476	433
Marketing costs	465	351
Multiply benefit payments	239	207
Office costs	891	732
Operating lease charges	97	97
Other indirect taxes	228	220
Policy services	46	46
Travel expenses	199	171
Other expenses	503	465
	5 806	5 035
35 FINANCE COSTS		
Interest expense on financial liabilities		
Redeemable preference shares	108	46
Subordinated redeemable debt	22	46
Unsecured subordinated call notes	249	102
Cost of carry positions	261	156
Other	152	132
	792	482

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	Basic earnings		Diluted earnings	
	2015	2014	2015	2014
36 GROUP EARNINGS PER ORDINARY SHARE				
Attributable to owners of the parent				
Earnings (cents per share) ^{1,2}	183.5	205.5	180.5	202.4
Headline earnings (cents per share)	184.5	207.1	181.4	204.0
Core headline earnings (cents per share)	244.0	230.3	239.2	225.7
Reconciliation of headline earnings attributable to owners of the parent	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Earnings – equity holders of group	2 857	3 197	2 857	3 197
Finance costs – preference shares			44	45
Dilutory effect of subsidiaries ³			(31)	(22)
Diluted earnings			2 870	3 220
Intangible assets and other impairments	19	25	19	25
Tax on intangible assets and other impairments	(4)	–	(4)	–
Headline earnings⁴	2 872	3 222	2 885	3 245
Net realised and fair value gains on excess	6	(544)	6	(544)
Basis and other changes and investment variances	148	160	148	160
Amortisation of intangible assets relating to business combinations	720	575	720	575
Non-recurring items ⁵	53	171	53	171
Investment income on treasury shares held on behalf of contract holders			24	14
Core headline earnings⁶	3 799	3 584	3 836	3 621
Weighted average number of ordinary shares in issue (million)	1 557	1 556	1 557	1 556
Adjustments for				
Assumed conversion of 32 million (2014: 34 million) preference shares (weighted)			33	35
Diluted weighted average – earnings and headline earnings (million)⁷			1 590	1 591
Treasury shares held on behalf of contract holders			14	14
Impact of weighting			–	(1)
Diluted weighted average – core headline earnings (million)⁷			1 604	1 604

¹ **Basic earnings per share**

In calculating the basic earnings per share, the exclusion from the income statement of the income in respect of treasury shares requires that these shares similarly be excluded from the weighted average number of ordinary shares in issue.

² **Diluted earnings per share**

Diluted earnings per share are calculated using the weighted average number of ordinary shares in issue, assuming conversion of all issued shares with dilutive potential. The convertible redeemable preference shares not recognised in accordance with IAS 39, have dilutive potential. The preference shares are assumed to have been converted into ordinary shares and earnings adjusted to eliminate the interest expense.

³ **Dilutory effect of subsidiaries**

Metropolitan Health is consolidated at 100% and the MMI Holdings Namibian group, Metropolitan Kenya and Cannon are consolidated at 96% in the results. For purposes of diluted earnings, diluted non-controlling interests and investment returns are reinstated.

⁴ **Headline earnings**

Headline earnings consist of operating profit, investment income, net realised and fair value gains, investment variances and basis and other changes.

⁵ **Non-recurring items**

Non-recurring items include one-off costs relating to the restructuring of the group. For June 2014 it also includes a one-off enhancement of benefits relating to the outsourcing of the Metropolitan Staff Pension Fund liabilities, amounting to R107 million. The previously unrecognised net surplus asset exceeding the employer surplus account was used to fund the enhancement and released in other comprehensive income, resulting in an accounting mismatch. The net asset value of the group has therefore not been impacted.

⁶ **Core headline earnings**

Core headline earnings disclosed comprise operating profit and investment income on shareholder assets. It excludes net realised and fair value gains on financial assets and liabilities, investment variances and basis and other changes that can be volatile, certain non-recurring items, as well as the amortisation of intangible assets relating to business combinations as this is part of the cost of acquiring the business.

⁷ **Diluted weighted average number of shares**

For diluted core headline earnings per share, treasury shares held on behalf of contract holders are deemed to be issued. For diluted earnings and headline earnings per share, treasury shares held on behalf of contract holders are deemed to be cancelled.

	2015 Rm	Restated 2014 Rm
37 CASH FLOW FROM OPERATING ACTIVITIES		
37.1 Cash utilised in operations		
Profit before tax	5 408	5 758
Adjusted for		
Dividends received	(3 193)	(3 118)
Interest received	(11 410)	(10 079)
Finance costs	792	482
Share of profits of associates	(4)	(2)
Net realised and fair value gains	(15 890)	(43 922)
Net movement in policy liabilities	15 377	41 305
Depreciation and amortisation expenses	1 294	1 118
Impairment charges	102	74
Deferred acquisition costs movement	391	267
Share-based payments and other employee benefit expenses	528	418
Staff and management bonus liabilities	458	160
Leave pay liability	18	28
Provisions	48	297
Reinsurance assets and liabilities	153	(40)
Employee benefit assets and obligations	(43)	(385)
Deferred revenue liability movements	(65)	(81)
Accelerated rental income	(56)	(31)
Other non-cash items	(5)	23
Changes in operating assets and liabilities (excluding effect of acquisitions and exchange rate differences on consolidation)		
Net insurance and investment liabilities	2 890	1 874
Intangible assets related to insurance and investment contracts	(436)	(330)
Investment properties	(149)	(936)
Properties under development	(78)	(154)
Assets designated at fair value through income	(6 361)	3 875
Transaction costs on acquisition of subsidiaries and associates	(9)	–
Loans and receivables	(2 100)	1 099
Insurance and other receivables	(226)	(273)
Employee benefit assets and obligations	(501)	(405)
Other operating liabilities	3 462	(1 599)
Cash utilised in operations	(9 605)	(4 577)

2014 reclassification

Changes in insurance and investment liabilities as per the income statement (2014: R41 305 million) and fair value gains on investments in associates designated at fair value (2014: R6 233 million) were previously classified and disclosed as changes in operating assets and liabilities in the note to the statement of cash flows. On reassessment of the nature of the changes, these have been reclassified and are now disclosed as non-cash flow items.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
37 CASH FLOW FROM OPERATING ACTIVITIES <i>continued</i>		
37.2 Income tax paid		
Due at beginning	(3 943)	(3 952)
Charged to income statement	(2 431)	(2 458)
Charged directly to other comprehensive income	(36)	(12)
Other	(6)	(61)
Business combinations	(201)	(400)
Exchange differences	–	1
Due at end	3 865	3 943
	(2 752)	(2 939)
37.3 Interest paid		
Redeemable preference shares	(108)	(46)
Subordinated redeemable debt	(22)	(46)
Unsecured subordinated call notes	(248)	(102)
Cost of carry positions	(261)	(156)
Other	(102)	(129)
	(741)	(479)

38 BUSINESS COMBINATIONS

Business combinations for the year ended 30 June 2015

Cannon

On 2 October 2014, the group acquired an accounting ownership of 71% (legal ownership of 66%) of Cannon, a composite insurer, for R308 million. The minority shareholders of Cannon also acquired a minority stake in Metropolitan Life Kenya. This acquisition allowed for geographical as well as product diversification within MMI's international operations. The purchase price allocation has been finalised and the transaction resulted in R103 million goodwill being recognised attributable to certain anticipated operating synergies.

CareCross

On 19 November 2014, the group acquired 100% in CareCross, a health administrator, for R300 million in cash. It includes a majority share in Occupational Care South Africa (OCSA). This acquisition allowed for revenue diversification in the Metropolitan Health segment. The transaction did not result in any goodwill being recognised.

Other

During the year the group also made a few smaller acquisitions.

	Total Rm	Cannon Rm	CareCross Rm	Other Rm
38 BUSINESS COMBINATIONS <i>continued</i>				
Purchase price allocation:				
Fair value of net assets:				
Intangible assets	721	174	392	155
Customer relationships	612	173	367	72
Brand	25	–	25	–
Computer software	84	1	–	83
Tangible assets	149	138	7	4
Owner-occupied properties	19	19	–	–
Property and equipment	14	3	7	4
Investment properties	116	116	–	–
Financial instrument assets	427	228	13	186
Securities designated at fair value through income	87	84	–	3
Available-for-sale	42	34	–	8
Held-to-maturity	80	80	–	–
Loans and receivables	218	30	13	175
Reinsurance contract assets	6	6	–	–
Insurance and other receivables	36	36	–	–
Other assets	39	19	20	–
Deferred income tax assets	1	–	1	–
Current income tax assets	38	19	19	–
Cash and cash equivalents	121	16	63	42
Insurance contract liabilities	(195)	(177)	(18)	–
Long-term insurance contracts	(20)	(20)	–	–
Capitation contracts	(18)	–	(18)	–
Short-term insurance contracts	(157)	(157)	–	–
Financial instrument liabilities	(128)	(38)	–	(90)
Investment contract liabilities	(38)	(38)	–	–
Other financial instrument liabilities	(90)	–	–	(90)
Other liabilities	(395)	(98)	(170)	(127)
Deferred income tax liabilities	(214)	(72)	(110)	(32)
Employee benefit obligations	(16)	(9)	(4)	(3)
Other payables	(140)	(17)	(31)	(92)
Current income tax liabilities	(25)	–	(25)	–
Net identifiable assets acquired	781	304	307	170
Derecognise investment in associate	(39)	–	–	(39)
Non-controlling interests (fair value method)	(95)	(88)	(7)	–
Goodwill	234	103	–	131
Contingent liability payments	(4)	–	–	(4)
Derecognition of Metropolitan Life Kenya shares	(11)	(11)	–	–
Purchase consideration in cash	866	308	300	258
Cash and cash equivalents in subsidiary	121	16	63	42
Less: purchase consideration in cash	(866)	(308)	(300)	(258)
Net cash and cash equivalents paid through business combinations	(745)	(292)	(237)	(216)

The goodwill relating to the above transactions is not deductible for tax purposes. The above transactions contributed net income of R470 million and losses of R30 million to the group results for the current year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

38 BUSINESS COMBINATIONS *continued*

Business combinations for the year ended 30 June 2014

Guardrisk Group

On 3 March 2014, MMI Holdings Ltd acquired 100% of the Guardrisk Group (Guardrisk) for R1.6 billion in cash. This acquisition reflects MMI's strategic intent to diversify its business in South Africa and selected international markets, with a primary focus on Africa. The transaction resulted in R567 million goodwill being recognised attributable to certain anticipated operating synergies. Refer to note 46 for more detail.

Providence Group

On 11 November 2013, the group acquired 100% in the Providence Group (Providence), a health administrator, for R51 million in cash with an additional R57 million contingent consideration. The transaction resulted in R19 million goodwill being recognised attributable to certain anticipated operating synergies.

Other

During the prior year the group also had a few smaller acquisitions, relating mostly to life books being acquired.

	Total Rm	Guardrisk Rm	Providence Rm	Other Rm
Purchase price allocation:				
Fair value of net assets:				
Intangible assets	1 095	940	112	43
Value of in-force business	138	128	–	10
Customer relationships	447	307	112	28
Brand	79	79	–	–
Broker network	355	355	–	–
Computer software	76	71	–	5
Tangible assets				
Property and equipment	5	1	2	2
Financial instrument assets	10 837	10 630	11	196
Securities designated at fair value through income	10 405	10 405	–	–
Available-for-sale	118	–	–	118
Held-to-maturity	24	–	–	24
Loans and receivables	290	225	11	54
Reinsurance contract assets	762	762	–	–
Insurance and other receivables	686	686	–	–
Other assets				
Deferred income tax assets	176	176	–	–
Cash and cash equivalents	2 330	2 284	4	42
Insurance contract liabilities	(6 061)	(5 836)	–	(225)
Long-term insurance contracts	(908)	(683)	–	(225)
Short-term insurance contracts	(5 153)	(5 153)	–	–
Financial instrument liabilities	(7 305)	(7 298)	–	(7)
Investment contract liabilities	(7 298)	(7 298)	–	–
Other financial instrument liabilities	(7)	–	–	(7)
Other liabilities	(1 346)	(1 305)	(40)	(1)
Deferred income tax liabilities	(308)	(283)	(31)	6
Employee benefit obligations	(22)	(22)	–	–
Other payables	(748)	(733)	(8)	(7)
Current income tax liabilities	(268)	(267)	(1)	–
Net identifiable assets acquired	1 179	1 040	89	50
Non-controlling interests (fair value method)	(5)	–	–	(5)
Goodwill	586	567	19	–
Contingent liability payments	(57)	–	(57)	–
Purchase consideration in cash	1 703	1 607	51	45
Cash and cash equivalents in subsidiary	2 330	2 284	4	42
Less: purchase consideration in cash	(1 703)	(1 607)	(51)	(45)
Net cash and cash equivalents paid through business combinations	627	677	(47)	(3)

The goodwill relating to the above transactions is not deductible for tax purposes. The above transactions contributed net income of R2 255 million and earnings of R83 million to the group results for the prior year.

	2015 Rm	2014 Rm
39 CAPITAL AND LEASE COMMITMENTS		
Capital commitments		
Authorised but not contracted	208	388
Authorised and contracted	–	364
	208	752
The above commitments, which are in respect of computer software, computer equipment, vehicles, furniture, sponsorships, promotions and new business opportunities, will be financed from internal sources. Also refer to note 42 for significant events after the reporting period.		
Lease commitments		
The minimum future lease payments payable under non-cancellable operating leases on property and equipment:		
Less than 1 year	21	47
Between 1 and 5 years	51	32
More than 5 years	31	–
	103	79
The minimum future lease payments receivable under non-cancellable operating leases on investment properties:		
Less than 1 year	469	373
Between 1 and 5 years	821	1 194
More than 5 years	423	413
	1 713	1 980

40 CONTINGENT LIABILITIES

The group is party to legal proceedings in the normal course of business and appropriate provisions are made when losses are expected to materialise.

41 RELATED PARTY TRANSACTIONS

41.1 Major shareholders and group companies

MMI Holdings Ltd is the ultimate holding company in the group. By virtue of its shareholding of 24.5% in MMI Holdings Ltd, Rand Merchant Insurance Holdings Ltd has significant influence over the group. The remaining shares are widely held by public and non-public shareholders; refer to the shareholder profile on page 261.

Kagiso Tiso Holdings (Pty) Ltd (KTH) is also considered to be a related party by virtue of its role as the group's broad-based black economic empowerment (B-BBEE) partner.

Apart from the shareholders' roles as related parties discussed above, no other MMI Holdings Ltd shareholders have a significant influence and thus no other shareholder is a related party.

Significant subsidiaries of the group are listed in Annexure A. Details of the associates of the group are contained in note 5 and Annexure B.

Various collective investment schemes in which the group invests are defined as subsidiaries as the group controls them in terms of IFRS 10; these are listed in Annexure A. Collective investment schemes over which the group has significant influence but not control are classified as investments in associates carried at fair value; details are included in Annexure B.

Other related parties include directors, key management personnel and their families. Key management personnel for the group are defined as the executive and non-executive directors. It is not considered necessary to disclose details of key management family members and the separate entities that they influence or control. To the extent that specific transactions have occurred between the group and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management, where full details of all relationships and terms of the transactions are provided.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

41 RELATED PARTY TRANSACTIONS *continued*

41.2 Transactions with directors and key management personnel and their families

Remuneration is paid to executive directors and key management personnel of the group, as well as to non-executive directors (in the form of fees). Transactions with directors are disclosed in the corporate governance report on pages 57 to 59 and pages 65 to 68 respectively.

The aggregate compensation paid by the group or on behalf of the group to key management for services rendered to the group is:

	2015 Rm	2014 Rm
Salaries and other short-term employee benefits	58	38
Post-employment benefits	1	1
Share-based payments	15	35
Directors' fees	16	16
	90	90

The group executive directors are members of the staff pension schemes, the details of which are in note 21.

The executive directors participate in the group's long-term retention schemes, the details of which are in note 21.

Aggregate details of insurance and investment transactions between MMI Holdings Ltd, any subsidiary and key management personnel and their families are as follows:

	2015	
	Insurance Rm	Investment Rm
Fund value (at 30 June 2015)	N/A	205
Aggregate life and disability cover (at 30 June 2015)	164	N/A
Deposits/premiums (for 12 months to June 2015)	4	1
Withdrawals/claims (for 12 months to June 2015)	–	(8)

	2014	
	Insurance Rm	Investment Rm
Fund value (at 30 June 2014)	N/A	196
Aggregate life and disability cover (at 30 June 2014)	118	N/A
Deposits/premiums (for 12 months to June 2014)	4	33
Withdrawals/claims (for 12 months to June 2014)	–	(63)

In aggregate, the group earned fees and charges totalling R2 million (2014: R2 million) on the insurance and investment products set out above.

41.3 Broad-based black economic empowerment (B-BBEE) partner

The group's broad-based black economic empowerment partner, Kagiso Tiso Holdings (Pty) Ltd (KTH), has an interest of 7.1% (2014: 7.1%) in MMI Holdings Ltd. The group has entered into the following transactions with KTH:

- MMI Holdings Ltd issued preference shares to KTH as disclosed in note 19.1.
- Metropolitan Health issued "A" ordinary shares to KTH in prior years that were financed through preference shares in MMI Holdings Ltd. The "A" ordinary shares are convertible into ordinary shares on a one-for-one basis and can only be converted as and when the preference shares are redeemed, also on a one-for-one basis. KTH holds a 17.6% interest in Metropolitan Health Corporate (Pty) Ltd through this transaction.
- KTH has a 21.2% holding in Eris Property Group (Pty) Ltd, a property management company.
- KTH has a 20% holding in Metropolitan Retirement Administrators (Pty) Ltd (MRA). The 20% interest was sold to MMI Holdings Ltd effective 1 July 2015. MRA specialises in the provision of administration services to large retirement funds through the effective use of technology and end-to-end automation.
- KTH has a 51% holding in C Shell 448 (Pty) Ltd – refer to note 5.

41 RELATED PARTY TRANSACTIONS *continued*

41.4 Contract administration

Certain companies in the group carry out third-party contract and other administration activities for other related companies in the group. These transactions are entered into at market-related rates. These fees are eliminated on consolidation.

41.5 Transactions with associates

Transactions with associates relate to loans advanced and preference share investments (refer to note 7).

41.6 Transactions with significant shareholders

MMI Holdings Ltd dividend declarations:

R333 million of the ordinary dividends declared by MMI Holdings Ltd in September 2014 (R298 million of the ordinary dividends declared in September 2013) and R248 million of the ordinary dividends declared in March 2015 (R223 million of the ordinary dividends declared in March 2014) were attributable to RMI Holdings Ltd. In September 2014, R196 million of the special dividends declared by MMI Holdings Ltd were attributable to RMI Holdings Ltd. Another R362 million will be provided for during the 2016 financial year (as part of the dividends declared in September 2015).

41.7 Post-employment benefit plans

Refer to note 21 for details of the group's employee benefit plans.

42 EVENTS AFTER THE REPORTING PERIOD

Refer to page 96 of the directors' report.

43 FINANCIAL RISK MANAGEMENT

The risk philosophy, structures and management processes of the group recognise that managing risk is an integral part of generating sustainable shareholder value while at the same time enhancing the interests of all stakeholders. The importance of maintaining an appropriate balance between entrepreneurial endeavour and sound risk management practice is also taken into account. While striving to create a competitive long-term advantage by managing risk as an enabler, the group simultaneously seeks to achieve higher levels of responsibility to all stakeholders. The group is currently exposed to the following risks:

Insurance risk: Life insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of life insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. Insured events are random and the actual number and amount of claims and benefits will vary from year to year.

Liquidity risk: Liquidity risk is the risk that the group, although solvent, will encounter difficulty in meeting obligations associated with financial and insurance liabilities (that are settled by delivering cash or another financial asset) as and when they fall due because of insufficient funds in the group, or because of the possibility that the group could be required to pay its liabilities earlier than expected (as a result of unexpected policyholder behaviour). This might occur in circumstances where the group's assets are not marketable, or can only be realised at excessive cost. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

Market risk: Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held. In certain instances these risks are passed on to policyholders, eg when financial instruments subject to market risk back contract holder liabilities.

Credit risk: Credit risk refers to the risk of loss or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty. It could also arise from the decrease in value of an asset subsequent to the downgrading of counterparties.

The purpose of the following section is to provide information on the processes in place to manage and mitigate the financial and insurance risks inherent in the contracts issued by the group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

43 FINANCIAL RISK MANAGEMENT *continued*

43.1 Classes of assets and liabilities

The following table reconciles the assets in the statement of financial position to the classes and portfolios used for asset-liability matching by the group where assets are managed and performance is evaluated against mandates. Further disaggregation within a class is also provided where relevant.

	2015 Rm	Restated 2014 Rm
Assets		
Financial assets carried at fair value		
Designated at fair value through income		
Equity securities	104 748	100 790
Local listed	79 843	78 261
Foreign listed	24 615	21 672
Unlisted	290	857
Debt securities	104 176	88 788
Stock and loans to government and other public bodies		
Local listed	39 402	30 514
Foreign listed	1 932	1 706
Unlisted	2 921	3 232
Other debt instruments		
Local listed	25 950	23 684
Foreign listed	564	491
Unlisted	33 407	29 161
Funds on deposit and other money market instruments	24 473	24 941
Unit-linked investments (<i>refer to Annexure B for further detail</i>)	132 330	120 477
Collective investment schemes		
Local unlisted or listed quoted	78 579	70 724
Foreign unlisted or listed quoted	30 027	25 942
Foreign unlisted unquoted	903	1 225
Other unit-linked investments		
Local unlisted or listed quoted	9 296	8 941
Local unlisted unquoted	12 241	12 333
Foreign unlisted unquoted	1 279	1 296
Foreign unlisted or listed quoted	5	16
Investments in associates designated at fair value through income (<i>refer to Annexure B for further detail</i>)	12 362	11 900
Derivative financial instruments	2 033	2 362
Held for trading	2 027	2 347
Held for hedging purposes	6	15
Available-for-sale	208	129
Equity securities		
Local listed	12	3
Foreign listed	147	87
Unlisted	36	4
Debt securities – foreign listed	–	31
Local unlisted quoted collective investment schemes (<i>refer to Annexure B for further detail</i>)	13	4
Financial assets carried at amortised cost		
Held-to-maturity	73	100
Funds on deposit and other money market instruments	42	85
Debt securities	31	15

	2015 Rm	Restated 2014 Rm
43 FINANCIAL RISK MANAGEMENT <i>continued</i>		
43.1 Classes of assets and liabilities <i>continued</i>		
Loans and receivables	7 652	5 586
Accounts receivable	2 790	2 444
Unsettled trades	2 503	772
Loans	2 359	2 370
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669
Cash and cash equivalents	26 174	28 875
Other assets carried at fair value		
Owner-occupied properties	3 030	1 714
Investment properties	7 212	7 675
Non-current assets held for sale	–	17
Other assets not carried at fair value	18 511	17 485
Total assets	446 841	414 508
The following table reconciles the liabilities in the statement of financial position to liability classes:		
Liabilities		
Carried at fair value		
Investment contracts		
Designated at fair value through income	220 356	201 651
Designated at fair value through income	39 720	30 801
Collective investment scheme liabilities	25 869	22 313
Subordinated call notes	3 320	2 573
Carry positions	9 370	4 851
Preference shares	1 016	1 001
Other	145	63
Derivative financial instruments	2 111	1 853
Held for trading	2 111	1 853
Carried at amortised cost		
Financial liabilities	1 092	1 463
Cumulative redeemable preference shares	293	313
Subordinated redeemable debt	–	511
Finance lease liabilities	2	2
Other	797	637
Other payables	11 835	8 548
Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	2 465	2 396
Payables arising from investment contracts	1 451	1 025
Collective investment scheme income distribution payable	636	218
Unsettled trades	3 187	992
Commission creditors	573	550
Other payables at amortised cost	3 523	3 367
Insurance contract liabilities	111 329	111 543
Investment contracts with DPF	26 134	25 405
Other non-financial liabilities	9 216	8 030
Total liabilities	421 793	389 294

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

44 CAPITAL MANAGEMENT

44.1 Capital management objectives

The key objectives of the group's capital management programme are:

- to optimise the group's return on embedded value;
- to maintain the optimal level of capital in the most cost efficient way. The optimal capital level is determined by balancing the needs of regulators, policyholders and shareholders. The optimal capital level aims to meet the group's strategic objective of maximising shareholder value, while at the same time considering the regulatory requirements and policyholder needs;
- to manage the levels of capital across the group to keep these in line with the economic capital requirement for each operating company and division;
- to ensure that the level of capital reflects and is consistent with the group's risk profile and risk appetite;
- to optimise the level of capital, the investment of the capital and the future use of this capital to the benefit of all stakeholders; and
- to ensure that there is sufficient capital available for profitable business growth.

44.2 Capital management framework

The capital management framework rests on the following three pillars:

- the investment of capital;
- the targeted level (and sources) of capital; and
- the allocation of capital to subsidiaries and divisions.

The current focus of the group is on the targeted (ie required) level of economic capital, given the anticipated changes in the regulatory environment.

44.3 Overview of capital management developments

44.3.1 Capital held in the holding company

MMI Holdings Ltd (ie the non-operating holding company) serves as the vehicle to facilitate the efficient deployment of capital to the various operating subsidiaries in the group. The holding company therefore retains sufficient capital to protect the brand and facilitate growth plans as formulated in the business strategy. The capital resources held by the holding company also reflects the reality that the group cannot rely on a large parent (or strategic partner) to provide additional capital during times of need.

44.3.2 Capital allocated to the operating subsidiaries

The operating subsidiaries of the group hold sufficient capital as required for their particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The economic capital requirement represents a long-term view (ie it looks through the economic cycle).

The economic capital requirement for the group's main life-insurance subsidiary, ie MMIGL, is quantified using an internal capital projection model. The internal capital model uses stochastic modelling techniques to project the economic capital requirements for five years. The required capital level of the life-insurance subsidiary reflects the approved risk appetite, which depend on the inherent risk profile of the company.

The capital projection model is regularly revised to ensure appropriateness. Risks that are modelled explicitly include market risk, credit risk, insurance risk (including pandemic disease risk) and operational risk. The amounts of capital held by the group's operating subsidiaries are regularly compared to their economic capital requirement and the intention is to manage the actual capital levels to be in line with the economic capital requirements.

For other life-insurance companies in the group, a multiple of the statutory capital adequacy requirement (CAR) is used to determine the economic capital requirement.

The capital levels of the non-insurance companies and subsidiaries are based on operational requirements (subject to any regulatory capital requirements), taking into account new business targets.

Actions that have been used in the past to manage the capital level include share buy-back programmes, normal and special dividend payments, capital reductions, raising subordinated debt and preference shares, as well as the consolidation of life insurance and other licenses in the group. All dividends and other capital reductions are approved by the various boards, as well as by the statutory actuary of MMIGL.

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.3 Statutory capital requirement

All of the life insurance subsidiaries in the group must hold allowable capital of not less than the minimum prescribed statutory CAR. MMI's only restrictions on its ability to access or use its assets and settle its liabilities are statutory restrictions. The prescribed minimum capital is available to meet obligations (and not available for distribution to equity holders) in the event of substantial adverse unexpected deviations from the best-estimate actuarial valuation assumptions.

The statutory surplus and CAR are determined in accordance with the requirements of the FSB and the standards and practice notes as issued by the Actuarial Society of South Africa. It is a risk-based capital measure that is intended to provide a reasonable level of confidence that insurers will be able to meet their existing liabilities under adverse circumstances. Although CAR is only a statutory requirement for South African life-insurance companies, it is also applied to the non-South African life-insurance companies in the group as a measure of prudence. The regulatory capital requirements of insurance companies outside South Africa are generally less stringent than South African CAR requirements.

The CAR is determined as the greater of the "Termination CAR" and the "Ordinary CAR". The Termination CAR ensures that the insurer has sufficient capital to survive an adverse selective mass termination of contracts. The Ordinary CAR includes provisions and scenario tests for a number of risks including:

- financial risk from asset and liability mismatch under specified market movements (resilience test);
- random fluctuations in insurance and expense risks; and
- risk that long-term insurance and financial assumptions are not realised.

44.3.4 Regulatory capital developments

The FSB is in the process of introducing a new solvency regime for the South African long-term and short-term insurance industries to be in line with European standards. To achieve this, the FSB launched its Solvency Assessment and Management ("SAM") project during 2010. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to specific South African circumstances where necessary. The intention with the FSB's SAM project is to achieve third country equivalence status with the Solvency II regime.

It is expected that SAM will ultimately result in substantial changes to the South African insurance capital management landscape. The group is actively participating in the development and formulation of the new South African solvency standards and is also reviewing its internal economic capital models in light of local and international developments.

The group is in the process of preparing for the adoption of the SAM regulatory capital regime which will become applicable in 2016. The group participated in the FSB's light parallel run which successfully concluded at the end of 2014. As part of the comprehensive parallel run which started in January 2015, the group has successfully submitted all regulatory reports required, implemented the risk and governance requirements as set out in the FSB Board Notice that became effective 1 April 2015, and are on track with our developments related to the Mock Own Risk and Solvency Assessment ("ORSA") that will be submitted to the FSB during the second half of 2015.

During the 2015 calendar year, the group is focussing on embedding the SAM requirements in the day-to-day operations and will continue to monitor developments in the legislative processes related to SAM. Ultimately SAM will achieve better alignment of stakeholder interests, including enhanced protection of policyholder benefits which is in line with the group's financial wellness strategy and client-centric operating model.

For Guardrisk, the SAM standard formulae proposed might not result in the most appropriate capital calculation and requirement for the *cell captive* environment. Guardrisk Insurance (the short-term insurer) therefore continues with the process of developing an internal model that will appropriately calculate the risk-based capital required in the *cell captive* environment. In this regard, Guardrisk Insurance is participating in the FSB's Internal Model Application Process. During discussions with the FSB it was unclear whether Guardrisk will have final approval for the internal model by the time SAM is implemented.

The group and Guardrisk are currently in discussions with the FSB regarding transitional arrangements that could provide some relief from the standard formulae requirements. At the same time, the Guardrisk team is working on some of the proposals that were presented to the Guardrisk board of directors and the potential changes in the business that will further reduce the required capital based on the SAM standard formula. Approval of the model will allow the business to meet capital requirements that are efficient for the *cell captive* model.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

44 CAPITAL MANAGEMENT *continued*

44.3 Overview of capital management developments *continued*

44.3.5 Issuance of subordinated debt

On 1 December 2014, MMIGL issued an amount of R750 million of subordinated, unsecured callable notes in the market. The notes issued were floating rate with a legal maturity of 10.5 years (callable after 5.5 years) and were issued at a spread of 2.3% over the three-month JIBAR interest rate.

On 15 December 2014, the R500 million subordinated notes issued by Metropolitan Life Ltd (now MMIGL) in 2006 were redeemed.

The table below shows a summary of the MMIGL subordinated, unsecured callable notes in issue at 30 June 2015:

MMI Group Ltd subordinated debt Instrument code	Amount issued (Rm)	Coupon rate	Tenor (years)	Date issued	Coupon type
MGL01	1 000	8.50% 3-month	9.5	Mar-06	Fixed
MMIG01	750	JIBAR + 1.46%	5.0	Mar-14	Floating
MMIG02	750	10.07% 3-month	7.0	Mar-14	Fixed
MMIG03	750	JIBAR + 2.30%	5.5	Dec-14	Floating

The credit spread at which the notes were issued in December 2014 was higher compared to the notes issued in March 2014 due to the African Bank Investments Ltd (ABIL) credit event that occurred in August 2014, which resulted in a general increase in spreads across the market.

On 12 August 2015, MMIGL issued a further amount of R1.25 billion of subordinated, unsecured callable notes in the market. Two notes were issued:

- A 12-year fixed rate note (callable after seven years) of R960 million was issued at a spread of 2.73% above the risk-free rate (the R2023 government bond); and
- A 15-year fixed rate note (callable after 10 years) of R270 million was issued at a spread of 3.05% above the risk-free rate (the R186 government bond).

On 15 September 2015, the R1 billion subordinated notes issued by MMIGL in 2006 will be redeemed.

44.4 Sources of capital utilised

The table below analyses the sources of shareholders' capital utilised by MMIGL at 30 June:

MMI Group Ltd Regulatory capital	2015		2014	
	Rm	%	Rm	%
Tier 1	12 714	79	12 942	81
– core tier 1 (ie equity capital)	12 214	76	12 442	78
– non-redeemable preference shares	500	3	500	3
Tier 2: subordinated qualifying debt	3 320	21	3 075	19
Qualifying statutory capital	16 034	100	16 017	100

44.5 Regulatory capital position

At 30 June 2015, MMIGL's CAR was covered 2.8 times (2014: 2.9 times) by the excess of assets over liabilities (on the prescribed statutory valuation basis).

MMI Group Ltd Regulatory capital position	2015 Rm	2014 Rm
Statutory excess over liabilities	16 034	16 017
CAR	5 810	5 545
CAR cover (times)	2.8	2.9

44 CAPITAL MANAGEMENT *continued*

44.5 Regulatory capital position *continued*

MMIGL's regulatory capital position reduced marginally over the 12 months ended 30 June 2015, mainly as a result of an increase in the CAR, offset to some extent by an increase in the statutory surplus.

The increase in the statutory surplus was due to the contribution from the operating profit and the increase in the subordinated debt in issuance of R250 million. This increase was partly offset by the funding of certain strategic acquisitions and the payment of a special dividend in October 2014.

The increase in CAR is mainly attributed to a combination of the following (offsetting) factors:

- An increase in credit risk due to various rating downgrades;
- A decrease in investment risk due to improved matching on structured products, and a more conservative investment strategy on some portfolios; and
- An increase in insurance risk, due to an increase in the size of the risk book.

44.6 Economic capital

The economic capital requirement for MMIGL is based on an internal capital projection model (using stochastic modelling techniques), while the other life-insurance companies use a multiple of the statutory CAR to determine the economic capital requirement. The strategic operating subsidiaries of MMI Holdings Ltd hold sufficient capital as required for the particular business operations. The capital allocation therefore reflects the economic capital requirement of the particular subsidiary and satisfies the risk appetite as approved by the relevant boards of directors. The intention is for the economic capital requirement to represent a long-term view (ie to look through the economic cycle).

Given that the SAM specifications have to a large extent been finalised, the delay in the approval of the Guardrisk internal model and the resulting uncertainty around the ultimate impact of SAM on future capital requirements and capital management, MMI deems it prudent at this stage to keep a capital buffer. MMI also has a number of strategic initiatives that it is pursuing which will require capital. Based on future capital projections, we are comfortable that the level of the capital buffer, after the payment of the ordinary final dividend, should be sufficient to meet future strategic requirements and the potential impact of SAM.

44.7 Credit ratings

On 12 March 2015, Fitch affirmed the credit ratings of MMIGL, MMI Holdings Ltd and Guardrisk. The National Insurer Financial Strength (IFS) rating of MMIGL, Guardrisk Insurance and Guardrisk Life was affirmed at "AA+(zaf)", while MMI Holdings Ltd's National Long-term rating was affirmed at "AA-(zaf)". The Outlooks for these companies are Stable. Fitch simultaneously affirmed the credit rating of MMIGL's subordinated notes at "A+(zaf)". Fitch also affirmed Mauritius-based Guardrisk International Ltd PCC's IFS rating at "BBB+" with a Negative Outlook.

45 INSURANCE AND INVESTMENT BUSINESS

The table below reconciles the contract holder liabilities for each category to the total liability in the statement of financial position. Each category represents distinct financial risks. Some categories may include both insurance and investment contracts.

2015	Investment			Total Rm
	Insurance Rm	with DPF Rm	Investment Rm	
Contracts with DPF	40 994	25 815	346	67 155
Individual contracts with DPF	35 436	7 061	–	42 497
Smoothed bonus business	26 143	7 058	–	33 201
Conventional with-profit business	9 293	3	–	9 296
Group contracts with DPF	5 558	18 754	346	24 658
Smoothed bonus business	–	16 650	–	16 650
Smoothed bonus business – fully vesting	–	964	–	964
With-profit annuity business	5 558	1 140	346	7 044
Market-related business	20 578	166	201 364	222 108
Individual market-related business	19 294	166	130 812	150 272
Group market-related business	1 284	–	70 552	71 836
Other business	41 968	92	8 777	50 837
Non-profit annuity business	32 385	–	2 480	34 865
Guaranteed endowments	1 065	–	6 268	7 333
Structured products	–	–	29	29
Other non-profit business	8 518	92	–	8 610
Subtotal	103 540	26 073	210 487	340 100
Liabilities in cell captive and short-term business	7 789	61	9 869	17 719
Total contract holder liabilities	111 329	26 134	220 356	357 819

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FOR THE YEAR ENDED 30 JUNE 2015

45 INSURANCE AND INVESTMENT BUSINESS *continued*

2014	Insurance Rm	Investment with DPF Rm	Investment Rm	Total Rm
Contracts with DPF	42 477	25 153	–	67 630
Individual contracts with DPF	37 758	7 471	–	45 229
Smoothed bonus business	28 297	7 468	–	35 765
Conventional with-profit business	9 461	3	–	9 464
Group contracts with DPF	4 719	17 682	–	22 401
Smoothed bonus business	–	16 648	–	16 648
Smoothed bonus business – fully vesting	–	990	–	990
With-profit annuity business	4 719	44	–	4 763
Market-related business	23 162	161	184 099	207 422
Individual market-related business	21 929	161	120 342	142 432
Group market-related business	1 233	–	63 757	64 990
Other business	38 880	32	8 688	47 600
Non-profit annuity business	30 927	–	2 501	33 428
Guaranteed endowments	1 275	–	5 983	7 258
Structured products	–	–	40	40
Other non-profit business	6 678	32	164	6 874
Subtotal	104 519	25 346	192 787	322 652
Liabilities in cell captive and short-term business	7 024	59	8 864	15 947
Total contract holder liabilities	111 543	25 405	201 651	338 599

45.1 Classes of long-term insurance and investment business

The different classes of business are discussed below:

Contracts with discretionary participation features (DPF)

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which cannot be removed or reduced on death or maturity, or non-vesting bonuses, which can be removed or reduced. Declared bonuses are usually a combination of both vesting and non-vesting bonuses, although for certain classes of business declared bonuses are all vesting.
- All long-term insurers that write discretionary participation business are required by the FSB to define, and make publicly available, the principles and practices of financial management (PPFM) that they apply in the management of their discretionary participation business. In accordance with this, MMIGL has issued PPFM documents on all discretionary participation portfolios detailing the investment strategies and bonus philosophies of the portfolios. In addition, management reports to the discretionary participation committee (a sub-committee of the MMI Holdings Ltd board) on an annual basis with regard to compliance with the PPFM.
- For smoothed bonus business, bonus stabilisation accounts (BSAs) are held equal to the difference between the fund accounts, or the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. A positive BSA is the undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders. A positive BSA is recognised as a liability.
- If the smoothing process has resulted in a negative BSA because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced by the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuaries are satisfied that, if the market values of assets do not recover, future bonuses will be reduced to the extent necessary. The group is exposed to market and liquidity risk to the extent that a negative BSA cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Short-term derivative hedging strategies may be utilised at times to protect the funding level of the smoothed bonus portfolios against significant negative market movements. These strategies would be implemented by the underlying asset managers in consultation with management.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.1 Classes of long-term insurance and investment business *continued*

Contracts with discretionary participation features (DPF) *continued*

- The major classes of smoothed bonus business are:
 - Metropolitan Retail individual smoothed bonus business (open to new business).
 - Momentum Employee Benefits smoothed bonus business (open to new business).
 - Momentum Employee Benefits with-profit annuity business (open to new business).
 - Momentum Retail traditional smoothed bonus business sold on an individual life basis as part of universal life investment option, with annual bonuses declared in arrears (closed to new business).
 - Momentum Retail traditional smoothed bonus business sold on an individual life basis as investment options on the Investo and Wealth platforms, with annual bonuses declared in arrears (open to new business).
 - Momentum Retail fully vesting smoothed bonus business sold on both an individual and an institutional basis, with monthly bonuses declared in advance (open to new business).
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.

Market-related business

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts, and include universal life contracts that also provide cover on death or disability.

- The group holds the assets on which unit prices are based in accordance with policy terms and conditions.
- Policyholders carry the investment risk; however, the group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also the reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the group's investment managers, which is supported by technical as well as fundamental analysis.
- The shareholders earn management fees as a percentage of the fair value of the asset portfolio. To the extent that these assets are subject to interest rate and market price risk, these fees are volatile, although always positive. In addition, shareholders earn fees as a percentage of the investment return on certain asset portfolios over the period. Due to fluctuations in investment returns over periods, these fees are volatile and can be negative.
- The liabilities originating from market-related investment contracts are measured with reference to their respective underlying assets. Changes in the credit risk of the underlying assets impact the measurement of these liabilities.

Non-profit annuity business

- Benefit payments on non-profit annuities are generally fixed in nominal or inflation-adjusted terms and guaranteed at inception (except to the extent that they are exposed to mortality insurance risk).
- Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- In order to reduce market risk, projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Guaranteed endowments (insurance and financial instrument business)

Insurance

- Guaranteed endowments are typically five-year term contracts with fixed benefit payments that are guaranteed at inception. The benefit on death is the greater of the initial investment amount and the market value of the underlying assets. The guaranteed benefits are closely matched from inception by instruments of appropriate nature and duration.
- Credit risk for these policies is borne by the shareholder. In cases where structured assets back this business, it will have a credit rating that corresponds to senior bank debt, equivalent to a long-term national scale rating of A+.

Financial instruments

- Certain guaranteed endowments pay the market value of the underlying assets on death as well. The death benefit is not guaranteed and these endowments are therefore accounted for as financial instruments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.1 Classes of long-term insurance and investment business *continued*

Other non-profit business

- These include long-term regular premium insurance contracts of varying duration.
- The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives. Any residual mismatch profit or loss as well as any credit risk for these policies is borne by the shareholder.

Investment guarantees

- A minimum guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Some products also provide minimum benefits on early duration deaths and on early terminations.
- In addition, all DPF business has a minimum death or maturity value equal to the vested benefits.
- Some older blocks of retirement annuity business have attaching guaranteed annuity options on maturity. These give contract holders the right to purchase conventional annuity contracts at guaranteed rates specified at the inception dates of the retirement annuity contracts. The liabilities in respect of these types of guarantees are much less significant than the liabilities in respect of minimum guaranteed maturity values and minimum vested benefits.
- On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms.
- The liabilities in respect of investment guarantees are sensitive to interest rate and equity price movements as well as market-implied volatilities and are valued using accepted proprietary models in accordance with market-consistent valuation techniques as set out in APN 110 – Allowance for embedded investment derivatives. Refer to note 17.
- Currently certain structures are in place to partially match movements in this liability. However, it is not possible to fully match these guarantees due to the long-term nature of the guarantees provided and the lack of corresponding financial instruments in the market with similar durations.

45.2 Long-term insurance risk

Long-term insurance risk is the risk that future risk claims and expenses will cause an adverse change in the value of insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

Long-term insurance risk management

The statutory actuary has a duty under the Long-term Insurance Act, 52 of 1998, to ensure that a legal entity remains solvent and able to meet liabilities at all times. The statutory actuary reports on these matters to the MMI board, MMI Audit Committee and the FSB. The Actuarial Committee supports the statutory actuary in his responsibility for the oversight of insurance risk. The Actuarial Committee has been appointed by the MMI Holdings Ltd board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, retrenchment rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In adverse circumstances, actual claims and benefits may exceed the liabilities held. The risk is mitigated to an extent through the addition of margins, especially where there is evidence of moderate or extreme variation in experience.

Reinsurance agreements are used as a primary risk mitigation tool, particularly in terms of insurance risks that are not well understood or fall outside the group's risk appetite.

The main insurance risks, as well as MMI's approach to the management of these risks, are set out on the following pages.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks

The risk of adverse change in the value of insurance contracts arising from changes in the level, trend, or volatility of demographic rates in respect of insurance obligations where a change in demographic rates lead to an increase in the value of insurance liabilities or claims. Underwriting processes are in place to manage exposure to these risks. The most significant measures are:

- Premium rates are required to be certified by the statutory actuaries as being financially sound.
- Regular experience investigations are conducted and used to set premium rates and valuation assumptions.
- Reinsurance arrangements are negotiated in order to limit the risk on any individual contract or aggregation of contracts.

The nature of risks varies depending on the class of business. The material classes of business most affected by these risks are discussed below.

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.
- Factors affecting these risks:
 - The most significant factors that could substantially change the frequency of claims are epidemics or widespread changes in lifestyle (smoking, exercise, eating, sexual practices), resulting in more or earlier claims.
 - Economic conditions can potentially affect morbidity claims where benefits are determined in terms of the ability to perform an occupation.
 - Medical advances can potentially affect the size and severity of medical claims.
 - Anti-selection, such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease.
 - The effect of selective withdrawal, which means policyholders are less likely to withdraw voluntarily if the cover is more likely to be needed in the foreseeable future.
 - Concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.
- How risks are managed:
 - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. Group practice is to adjust these charges so that on average they reflect actual mortality experience, hence reducing mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
 - To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of some or all of age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown that these are reliable indicators of the risk exposure.
 - A guarantee period shorter than the policy term applies to risk business, and enables the group to review premium rates on in-force contracts during the life of the contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years.
 - All applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
 - Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for each product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
 - Underwriting is done to identify abnormal risks and take appropriate action, such as applying additional premium loadings or altering benefit terms.
 - Additional provisions are held in respect of the potential deterioration of the mortality experience of supplementary benefits and direct marketing business.
 - Reinsurance agreements are used to limit the risk on any single policy and aggregation of policies. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for sub-standard lives and large sums assured.

Momentum Retail typically retains 85% of the risk on amounts of cover not exceeding R5 million on individual lives that are medically underwritten and that are not members of employee benefit schemes. Amounts of cover in excess of R5 million are typically fully reinsured.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks *continued*

Metropolitan Retail has a number of different reinsurance structures in place, depending on the type of product, the size of the risks involved and the experience in this type of business. The two structures mostly used are surplus retention where, generally, amounts of up to R1.5 million are retained with the full amount above that reinsured, and risk premium on a constant retention basis up to a maximum retention limit of R400 000. Reinsurance is on fully underwritten and limited underwriting products excluding funeral products which are not reinsured.

- Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. MMIGL's catastrophe reinsurance cover for the current financial year is R700 million (2014: R650 million) in excess of R20 million of the total retained sum assured for any single event involving three or more lives.

The table below shows the concentration of individual insurance contract benefits (gross and net of reinsurance) by sum insured at risk.

Sum insured per benefit (Rands)	2015			2014		
	Number of benefits	Amount (gross) Rm	Amount (net) Rm	Number of benefits	Amount (gross) Rm	Amount (net) Rm
0 – 20 000	9 862 911	54 569	21 979	7 257 939	50 174	26 447
20 001 – 50 000	1 667 338	55 532	27 451	1 385 706	47 596	31 080
50 001 – 100 000	729 220	53 561	16 238	429 757	34 150	13 261
100 001 – 200 000	315 605	50 858	21 837	415 184	85 112	45 297
200 001 – 500 000	265 490	91 878	55 788	166 546	57 463	32 599
500 001 – 1 000 000	239 877	133 638	94 769	238 144	132 284	94 976
> 1 000 000	725 528	801 911	455 727	655 613	744 799	427 702
Subtotal	13 805 969	1 241 947	693 789	10 548 889	1 151 578	671 362
Cell captive business	2 634 998	213 159	51 084	2 583 150	189 008	54 861
Total	16 440 967	1 455 106	744 873	13 132 039	1 340 586	726 223

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Typical benefits are:
 - life insurance (mostly lump sum, but some children and spouse's annuities)
 - disability insurance (lump sum and income protection)
 - dread disease cover
 - continuation of insurance option.
- Factors affecting these risks and how they are managed:
 - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry; hence a higher degree of concentration risk.
 - The products are mostly simple designs with a one-year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.
 - Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reason for this is that participation in the group's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.
 - Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:
 - o Region
 - o Salary structure
 - o Gender structure
 - o Industry
 - For large schemes (typically 200 or more members), a scheme's past experience is an important input in setting rates for the scheme. The larger the scheme, the more weight is given to the scheme's past experience.
 - Rate reviews take into account known trends such as worsening experience due to AIDS.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks *continued*

- To manage the risk of anti-selection, there is an ‘actively at work’ clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This could be waived if the group takes over a scheme from another insurer for all existing members. In addition, a pre-existing clause may apply, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard reinsurance treaty in place covering group business.
- Lump sum benefits in excess of R5 million and disability income benefits above R50 000 per month are reinsured.
- There are some facultative arrangements in place on some schemes where a special structure is required, eg a very high free cover limit or high benefit levels.
- In addition, there are catastrophe treaties in place. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business.

The table below shows the concentration of group schemes by scheme size (as determined by the number of lives covered).

Lives covered by scheme	2015	2014
0 – 1 000	7 815	7 488
1 001 – 5 000	438	451
> 5 000	204	214
Subtotal	8 457	8 153
Cell captive business	58	22
Total	8 515	8 175

Annuity business

- Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. With-profit annuities are also offered whereby the policyholder shares in the experience of a predefined group of policyholders. The longevity risk in this case is that the annuitants may live longer than assumed in the pricing of the contract.
- Factors affecting these risks:
 - increased longevity due to medical advances and improvement in social conditions
 - selection bias – individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed:
 - Pricing assumptions are based on international mortality tables, with an allowance for improving mortality trends.
 - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
 - Annuity products are sometimes sold in combination with whole life cover, which provides a natural hedge against longevity and mortality risk.
 - Premium rates differentiate on the basis of age and sex.

The following table shows the distribution of number of annuitants by total amount per annum:

Annuity amount per annum (Rands)	2015		2014	
	Number of annuitants	Total amount per annum Rm	Number of annuitants	Total amount per annum Rm
0 – 10 000	81 885	341	83 240	340
10 001 – 50 000	48 418	1 084	47 960	1 071
50 001 – 100 000	10 353	720	9 515	664
100 001 – 200 000	4 818	662	4 198	576
> 200 000	2 492	912	2 124	787
Subtotal	147 966		147 037	
Cell captive business	1 342	68	2 420	28
Total	149 308		149 457	

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.1 Mortality, longevity, morbidity and medical risks *continued*

Permanent health insurance business

The group also pays permanent health insurance (PHI) income to disabled employees, the bulk of which is from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is, therefore, the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims are reviewed at inception to determine eligibility. On-going claims in payment are also reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

45.2.2 Contract persistency risk

- Persistency risk is the risk of adverse change in the value of insurance contracts due to adverse lapse, surrender and paid-up experience, or to a change in the expected exercise rates of such policyholder options.
- Expenses such as commission and acquisition costs are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges in respect of the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, any amount payable on withdrawal normally makes provision for recouping any outstanding expenses from intermediaries. However, losses may still occur if the expenses incurred exceed the expected recoveries, which is usually the case for risk policies and normally happens early on in the term of recurring premium savings policies, or where the withdrawal amount does not fully allow for the recovery of all unrecovered expenses. This may either be due to a regulatory minimum applying, or to product design.
- Terminations can have the effect of increasing insurance risk, eg contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical, disability or death benefits.

Factors affecting the risk:

- Economic conditions – economic hardship can cause an increase in terminations due to a reduced ability to afford premiums or a need for funds.

How risks are managed:

- In addition to setting realistic assumptions with regard to termination rates (rates of lapse, surrender and paid up experience) based on the group's actual experience, specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, efforts are in place to actively retain customers at risk of departure due to a lapse, surrender or maturity.
- Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
- Persistency rates are measured on a monthly basis by a variety of factors and retention strategies are implemented on an ongoing basis based on this information.
- Commission paid on many products with investment contract features is closely aligned to premium collection and the terms of the contract, therefore reducing the risk of non-recovery of commission on new policies subsequently cancelled or paid up, which may improve persistency.

45.2.3 Retrenchment risk

Retrenchment risk is the risk of loss, or of adverse changes in the value of insurance liabilities, resulting from changes in the level, trend or volatility of retrenchment inception rates used in pricing and valuing retrenchment benefits provided under policies. MMI has some exposure to retrenchment risk, and will consider future opportunities which provide adequate risk adjusted return and can be appropriately mitigated. The risk is seen as an enabler to get more exposure to other risks to which MMI has a risk seeking attitude. When writing retrenchment risk, MMI carefully considers the design of benefits, benefit term, premium guarantees as well as the expected diversification across employers and industries.

45.2.4 Expense risk

There is a risk that the group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

Budget controls are in place to mitigate this risk. The group performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience and budgets, with allowance for inflation. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of books, arising from past acquisitions and closed to new business.

45 INSURANCE AND INVESTMENT BUSINESS *continued*

45.2 Long-term insurance risk *continued*

45.2.5 Business volume risk

There is a risk that the group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs is variable and relates directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are also used to distribute other product lines within the group, such as health insurance and short-term insurance.

45.3 Short-term insurance risk

Short-term insurance risk is the risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines.

The definitions of the risks that compromise short-term insurance risk are presented below:

- Premium risk: the risk of financial loss arising from fluctuations in timing, frequency and severity of insured events for business to be written in the next 12 months and unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or the need to increase these provisions.
- Reserve risk: the risk of adverse change in the value of insurance obligations arising from fluctuations in timing and amounts of claim settlements.
- Lapse risk: the risk of financial loss, or of adverse change in the value of insurance obligations, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
- Catastrophe risk: the risk that a single event, or series of events, of major magnitude, usually over a short period (often 72 hours), leads to a financial loss, or of an adverse change in the value of insurance liabilities. Catastrophe losses are the losses that arise from catastrophe risk and these include:
 - Natural catastrophes which includes anything which is caused by a natural process, including earthquakes and hail storms.
 - Man-made catastrophes which are events that arise as a consequence of actions by humans.

The group conducts business in different classes of short-term insurance and write these either as personal or commercial contracts. The following types of traditional contracts are written (see Guardrisk Insurance section for cell captive classes of business):

- Motor: Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs and includes a reinsurance policy in respect of such a policy.
- Property: Provides policy benefits for loss of or damage relating to the possession, use, or ownership of moveable and immovable property and includes a reinsurance policy in respect of such a policy.
- Accident and Health: Provides policy benefits if a disability event, health event or death event occurs and includes a reinsurance policy in respect of such a policy.
- Liability: Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.
- Transportation: Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed and includes a reinsurance policy in respect of such a policy.
- Miscellaneous: Provides policy benefits relating to any matter not otherwise provided for and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia legal expense insurance.

Premiums and claims relating to short-term insurance for the group are as follows:

	2015 Rm	2014 Rm
Premiums	7 130	2 830
Claims	4 062	1 649

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46 GUARDRISK

Introduction

MMI Holdings Ltd acquired 100% of Guardrisk on 3 March 2014. Guardrisk has not yet fully aligned all its risk management processes to that of the MMI group, although significant progress has been made.

Nature of business

Guardrisk is principally engaged in both short-term and long-term insurance and related insurance management activities. It transacts in all classes of short-term insurance business, primarily as a cell captive and alternative risk transfer insurer, focusing on both the corporate and retail market. Guardrisk was also South Africa's first cell captive long-term insurer, and is licensed to underwrite assistance, disability, fund, health, life policies and sinking fund policies (ie endowments), also primarily as a *cell captive* and alternative risk transfer insurer.

There are currently two distinct types of *cell captive* arrangements, being:

- "First-party" cell arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies; and
- "Third-party" cell arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products or the on selling of insurance products through contracted independent intermediaries. For third-party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.

The "promoter cell" will exclude all assets and liabilities of the first and third-party cell arrangements.

All agreements for services provided in respect of third-party arrangements are transacted between Guardrisk and the third party. All transactions with third parties and policyholders are recorded in the income statement, with the third-party cell owner being a reinsurer of the net result. The impact of this application on the group's financial statements is that the results of the cell captive arrangements have no direct impact on the group's earnings, except for fee income earned by the promoter cell.

Contingency policy: An insurance contract to provide entry-level insurance cover for first-party risks. These policies provide for payment of a performance bonus to the insured based on claims experience and related expenses at the end of the policy period.

In a limited number of cases, the promoter cell acts as reinsurer for certain cells. The promoter generally retains a portion of the risk related to that book of business and further reinsures the remainder of the risk to external reinsurers. The promoter cell earns underwriting profits on the risk retained.

The group's income statement includes several income and expense items related to insurance business written through cell arrangements. In particular all transactions relating to third-party cell arrangements are recorded. However, these transactions are transferred back to the third-party cell owner. Also assets and liabilities from *cell captive* arrangements are recognised in the statement of financial position. Except for the impact of contingency policies, as well as the fees earned by the promoter cell and income on the promoter cell's own assets, cell arrangements have no impact on the group's earnings.

Risk management

The Guardrisk business is exposed to insurance risk. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, Guardrisk has the right to refuse to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle Guardrisk to pursue third parties for payment of some or all costs (eg subrogation).

The underwriting strategy is directed at a portfolio of underwritten risks that are well diversified in terms of risk, industry and geography.

Cell captive arrangements

The cell owner shareholders' agreements protect the group from losses arising from business conducted in cells due to the recapitalisation clause. This solvency risk is measured on a monthly basis and, if required, additional capital is requested from the cell owners. The group's exposure to risk on this business is limited to the credit risk of the cell owner, if a cell owner does not recapitalise in terms of the cell owner shareholders agreement, with respect to third-party cell arrangements.

In addition, reinsurance agreements are concluded to minimise the solvency risk (refer to Reinsurance section on the following page).

Contingency policy business

This business is usually written for a one-year period with the policies covering multiple risks. The risks underwritten are those of a corporate entity (ie first-party business) and are generally either in respect of primary layers of the corporate's insurance programme or for risks that are difficult to insure in a traditional insurance product. The corporate insured in a contingency policy is entitled to a share in the underwriting result if there is favourable claims experience.

Actuarial input is received to establish suitable policy and cover limits as well as retention limits for reinsurance where applicable. Reinsurance is generally structured above the layer provided by the contingency policy.

There is an aggregate excess of loss treaty in place for all contingency policies. This reinsurance treaty is currently arranged for a limit of R15 million each and every loss in excess of R1 million each and every loss up to R5 million in the annual aggregate.

Risk participation with cell shareholders

Guardrisk, through the promoter cell, shares in the emerging underwriting experience of selected cell arrangements. Guardrisk carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each selected cell participation.

Terms and conditions of non-life insurance contracts

Non-life insurance business is transacted across all eight categories of permissible authorisation classes as defined by the Short-term Insurance Act, 53 of 1998. The terms and conditions of Guardrisk's insurance contracts are in accordance with its license conditions as set out below.

Insurance is provided to corporate clients (through first-party cells and contingency policies) and to the general public (through third-party cell owners). Insurance contracts are issued for monthly, annual and multi-year periods and include the following classes of risk:

Property – Provides policy benefits for an event relating to the use, ownership, loss of or damage to movable or immovable property and includes a reinsurance policy in respect of such policy.

Accident and Health – Provides policy benefits if a disability event, health event or death event occurs and includes a reinsurance policy in respect of such a policy.

Motor – Provides policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle occurs and includes a reinsurance policy in respect of such policy.

Engineering – Provides policy benefits for risks relating to the possession, use or ownership of machinery or equipment other than a motor vehicle, in the carrying on of a business, the erection of buildings or other structures or the undertaking of other works or the installation of machinery or equipment and includes a reinsurance policy in respect of such a policy.

Guarantee – Provides policy benefits relating to the failure of a person to discharge an obligation when it occurs and includes a reinsurance policy in respect of such a policy.

Liability – Provides policy benefits relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically provided for elsewhere and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia public liability, product recall and malicious product tampering.

Transport – Provides policy benefits relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs; and includes a reinsurance policy in respect of such a policy.

Miscellaneous – Provides policy benefits relating to any matter not otherwise provided for and includes a reinsurance policy in respect of such a policy. This type of contract typically includes inter alia legal expense insurance.

Multi-year risk insurance programmes are insurance policies where maximum cover is provided at inception of the policy with premiums payable at inception and in future periods. The group's exposure to risk on this business (relating to first-party cell arrangements and contingency policies) is limited to the credit risk of the policyholder. The credit risk is substantially reinsured by a panel of participating reinsurers.

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46 **GUARDRISK** *continued*

Risk management *continued*

Terms and conditions of life insurance contracts

Short-term life insurance contracts – These contracts generally consist of personal accident cover providing death, disability and retrenchment benefits in the event of an accident. Benefit payments are fixed and payable on the occurrence of the specified insurance event.

Long-term insurance contracts with fixed and guaranteed terms – These contracts insure events associated with human life (eg credit life or health insurance contracts) over a long duration.

Long-term insurance contracts without fixed terms – These contracts insure events associated with human life (eg post-retirement medical aid and health insurance contracts) over a long duration.

General risk overview

Guardrisk has a risk committee. This committee considers both underwriting and counterparty exposures in order to minimise risks of non-performance on portfolios as well as to clarify risk obligations with clients. The committee also reviews the appropriateness and viability of major product development initiatives to confirm regulatory, legal, tax and accounting standards.

For each cell or policy accepted by Guardrisk, an actuarial analysis is undertaken to determine major exposures to insurance risk. This analysis varies in extent and detail depending on the significance of the new cell facility. For significant down-side risk this analysis includes stochastic modelling of past claims and the projection, at different confidence levels, of future scenarios.

Each new risk is considered by the underwriting and actuarial teams and where necessary adjustments are made to the theoretical premium to take into account competition, the underwriting cycle, reinsurance and capital requirements.

Reinsurance

The key objective when placing reinsurance is to optimise capital requirements and protection of the retained lines of both Guardrisk and the cell owners.

The reinsurers selected are in accordance with Guardrisk's reinsurance vetting procedures. These are presented to and approved by the Guardrisk board. These procedures include limiting individual cessions and accumulations per reinsurer in accordance with their credit rating.

Other than sourcing capacity for both first and third-party business, reinsurance is arranged to protect the net retention of the promoter on both a proportional and non-proportional basis. The net retention of both Guardrisk and the cells will determine the non-proportional programmes whereas estimated premium income and loss ratios determine retention on proportional programmes. The non-proportional reinsurance arrangements include per risk excess-of-loss, stop-loss and catastrophe coverage. Proportional reinsurance arrangements include quota share and surplus treaties.

Concentrations of insurance risk

Risks relating to the Guardrisk business are adequately spread across the major classes of insurance risk.

Credit risk

The Guardrisk business has exposure to credit risk (relating to financial assets, reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance policyholders and amounts due from insurance intermediaries), which is the risk that a counterparty will be unable to pay amounts in full when due. A unique key area where the group is exposed to credit risk is with regards to the cell shareholders' obligation to restore solvency of cells when required.

The relationship between Guardrisk and its cell owner shareholders is governed by the cell owner shareholders agreement entered into between Guardrisk and the cell shareholder. This agreement determines that the cell owner shareholder has the obligation to restore any capital deficit in its cell on receipt of such a demand from Guardrisk. Guardrisk can demand recapitalisation of a cell in the event of the solvency ratio of the cell falling below the ratio required by the regulator or if the shareholders funds reflect a deficit. Claims of first and third-party cells will be paid in terms of the policy. If the cell is in a deficit position after the claim, a request will be made to recapitalise the cell. However, in the case of first-party cells, the claims are further limited to the policy limits.

46 **GUARDRISK** *continued***Risk management** *continued***Credit risk** *continued*

This risk is managed by a detailed assessment of potential cell shareholders' creditworthiness based on the ability to meet the responsibility and obligations in terms of the shareholders agreement. Solvency of the cell is assessed monthly, to ensure that the cell shareholders have the ability to fund additional capital, if requested from them. The solvency of the cell and past requests that have been made to the cell owner to recapitalise the cell has been used as a basis to test impairment.

However, in the history of Guardrisk, there have never been any incidents of cell owner's or reinsurer's failure.

47 **FINANCIAL RISK INHERENT IN CONSOLIDATED COLLECTIVE INVESTMENT SCHEMES AND FUND OF ALTERNATIVE FUNDS**

The group consolidates a number of collective investment schemes and fund of alternative funds as a result of exercising control over these schemes, and the MMI risk management framework is therefore applicable to the risk management of the schemes. Refer to Annexure A for information on the schemes consolidated.

Because of the specific nature of the business of the schemes, the risk management principles may be applied differently to managing the risks relevant to the schemes from how the overall financial risks are managed. This section describes how the financial risk management of the schemes differs from the overall financial risk management.

The management company of the scheme has a dedicated independent risk unit that continuously monitors the overall risk of the portfolios against stated mandate limits and the portfolio risk appetites over time. To avoid conflicts of interest, the unit is separate from the investment team and reports directly to the chief operating officer of the management company.

When considering any new investment for a scheme, the risks and expected returns are critical elements in the investment decision. Before an instrument is included in a portfolio, risks are carefully considered at instrument and portfolio level. The scheme mandate is also assessed.

A portfolio market risk appetite is measured as a function of current market conditions and a benchmark, which translates into a targeted tracking error that is monitored by the independent risk unit.

Credit and liquidity risk are mitigated through diversification of issuers in line with the policy. All amounts disclosed include amounts attributable to the consolidated collective investment schemes and fund of alternative funds.

The collective investment schemes not consolidated are included in Annexure B as Collective investment schemes and Investments in associates designated at fair value through income.

48 **LIQUIDITY RISK****Liquidity risk governance**

Liquidity risk for the group is managed in terms of the group liquidity risk management policy, which is a policy of the group enterprise risk management function.

The executive Balance sheet management committee (executive BSM) is responsible for the group's liquidity and funding risk management with the BSM Advisory Committee providing oversight and non-executive advisory support for funding and liquidity risk assumed in the group's statement of financial position on behalf of shareholders. This includes the funding and liquidity risk on guaranteed and non-profit policyholder liabilities, and shareholder portfolios.

The divisional policyholder investment committees oversee the management and monitoring of funding and liquidity risks that are assumed on behalf of policyholders. These committees ensure that investment mandates and benchmarks are informed by the liability profile of the underlying products and that investments are made in assets that are expected to provide cash flows matching liability outflows as and when these are expected to occur.

Liquidity risk management

The principal risk relating to liquidity comprises the group's exposure to policyholder behaviour, eg unanticipated benefit withdrawals or risk-related claims. The insurance and investment contract liabilities comprise 85% (2014: 87%) of the liabilities of the group. Management of the liquidity risk thereof is described on the following page in terms of policyholder benefits.

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48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Policyholder liabilities

Guaranteed policyholder benefits

Guaranteed endowments, structured products and annuities have very specific guaranteed repayment profiles. The expected liability outflow is matched by assets that provide the required cash flows as and when the liabilities become payable. The liquidity risk arising from the liabilities in respect of embedded investment guarantees (APN 110 liability) is managed by backing these liabilities with sufficiently liquid financial instruments.

Non-profit annuities' policyholder benefits

These contracts provide guaranteed annuity benefits and all liquidity risks arising from these contracts are borne by the shareholders. The expected liability outflow is matched as closely as possible with assets of an appropriate nature and term in order to match the duration and convexity of the portfolio and thus mitigate the interest rate risk exposure. The liquidity risk is thus mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term. The asset portfolio is a diversified portfolio of liquid cash and fixed-interest instruments (government bonds, corporate bonds, interest rate swaps and promissory notes) that closely matches the liquidity profile of the liability cash flow and this mitigates the liquidity risk.

Conventional with-profit and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the policy fund values which reflect past contributions plus declared bonuses or the initial sum assured plus declared bonuses. The policy values, over time, move broadly in line with the value of underlying assets. Upon the contractual claim (maturity and risk benefit claim) of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as they consist mainly of large listed equity securities, government stock or funds on deposit.

The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Maturity dates are normally known in advance and contractual claims are projected. Cash flow projections are performed to aid in portfolio and cash flow management. Where the product design allows for the payment of an early termination value (ie a benefit payment before the contract maturity date), such value is not normally guaranteed but is determined at the group's discretion (subject to certain minima prescribed by legislation). This limits the loss on early termination. If underlying assets are illiquid, the terms of the policy contract normally allow for a staggered approach to early termination benefit payments. Examples of the latter are contracts that invest in unlisted equity and certain property funds.

When a particular policyholder fund is contracting (ie outflows exceed inflows), care is taken to ensure that the investment strategy and unit pricing structure of the fund are appropriate to meet liquidity requirements (as determined by cash flow projections). In practice, such a fund is often merged with cash flow positive funds to avoid unnecessary constraints on investment freedom.

Linked and market-related policyholder benefits

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These contracts do not expose the group to significant liquidity risk because the risk of liquidity losses, except those that relate to investment guarantees and risk benefit claims, is largely borne by the policyholders. The investment policy and mandates take the expected liability cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets.

Other policyholder benefits

Policyholder contracts that provide mostly lump sum risk benefits do not normally give rise to significant liabilities compared to policies that provide mostly savings benefits. Funds supporting risk benefits normally have substantial cash inflows from which claims can be paid. Accrued liabilities are matched by liquid assets to meet cash outflows in excess of expected inflows.

On certain large corporate policy contracts, the terms of each individual policy contract take into account the relevant liquidity requirements. Examples of such contractual provisions include the payment of benefits *in specie*, or a provision for sufficient lag times between the termination notification and the payment of benefits.

These contracts provide guaranteed annuity benefits and all the liquidity risk that arises is borne by the group. The liquidity risk is mitigated by ensuring that expected liability cash flows are matched with sufficiently liquid assets of appropriate nature and term.

48 LIQUIDITY RISK *continued*

Liquidity risk management *continued*

Shareholder funds

The significant shareholder liabilities of the group are the cumulative convertible redeemable preference shares issued by MMI Holdings Ltd, the carry positions, the subordinated call notes issued by MMIGL and the cumulative redeemable preference shares issued by MMI Strategic Investments (Pty) Ltd.

The group holds sufficient cash and liquid marketable financial instruments in its shareholders' funds to meet its commitments as and when they fall due. The investment assets backing the shareholder funds are invested in a diversified portfolio of liquid cash, floating rate instruments and interests in subsidiaries and or related entities. The investment mandate and guidelines that govern the investment of shareholder funds restricts exposure to high quality assets.

The projected liquidity requirements of the shareholder portfolio are identified, measured and reported on a regular basis to the executive BSM. The regular reports take the expected shareholder cash flows (eg committed mergers and acquisition activity and liquidity needs of related entities) into account in order to identify material funding liquidity gaps early. By determining the potential liquidity gaps, the funding liquidity and market liquidity risks of the shareholder portfolios are mitigated.

Liquidity profile of assets

The following table illustrates that the group's assets are fairly liquid in order to meet the liquidity needs of obligations if the group should be required to settle earlier than expected:

Financial asset liquidity	2015		Restated 2014	
	%	Rm	%	Rm
High ¹	66%	296 392	71%	293 110
Medium ²	28%	125 591	24%	97 879
Low/illiquid ³	5%	23 979	5%	22 706
Other assets not included above				
– non-current assets held for sale		–		17
– employee benefit assets		408		405
– accelerated rental income		184		128
– deferred income tax		287		263
Total assets		446 841		414 508

¹ Highly liquid assets are those that are considered to be realisable within one month (eg level 1 financial assets at fair value, including funds on deposit and other money market instruments > 90 days, cash and cash equivalents), the current values of which might not be realised if a substantial short-term liquidation were to occur due to demand-supply principles.

² Medium liquid assets are those that are considered to be realisable within six months (eg level 2 and level 3 financial assets at fair value, except for funds on deposit and other money market instruments > 90 days, loans and receivables, insurance receivables, reinsurance contracts).

³ Low/illiquid assets are those that are considered to be realisable in excess of six months (eg intangible assets, investment and owner-occupied properties, property and equipment, equity-accounted associates).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

48 LIQUIDITY RISK *continued*

Maturity profile of liabilities

The cash flows (either expected or contractual) for these liabilities are disclosed in the maturity analysis below:

2015 R million	Carrying value	Total	Open- ended ¹	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)²	103 540	103 540	15 055	11 316	24 531	20 184	32 454
Linked (market-related) business							
Individual	19 061	19 061	1 138	1 147	4 464	4 162	8 150
Employee benefits	1 285	1 285	–	149	457	327	352
Smoothed bonus business							
Individual	27 582	27 582	1 757	3 240	8 045	6 474	8 066
Conventional with-profit business	9 223	9 223	3 592	501	892	672	3 566
Non-profit business							
Individual	6 031	6 031	1 884	1 572	671	360	1 544
Employee benefits	2 166	2 166	61	1 235	258	208	404
Annuity business	38 192	38 192	6 623	3 472	9 744	7 981	10 372
Investment contracts with DPF (discounted cash flows)²	26 073	26 073	20 361	753	2 143	1 368	1 448
Linked (market-related) business							
Individual	143	143	–	27	38	46	32
Smoothed bonus business							
Individual	7 081	7 081	1 517	723	2 104	1 321	1 416
Employee benefits	17 703	17 703	17 701	–	1	1	–
Conventional with-profit business	3	3	–	3	–	–	–
Non-profit business							
Individual	3	3	3	–	–	–	–
Annuity business	1 140	1 140	1 140	–	–	–	–
Investment contracts (undiscounted cash flows)	210 487	210 493	107 318	4 084	13 359	10 660	75 072
Linked (market-related) business							
Individual	130 788	129 287	37 697	2 715	4 965	9 972	73 938
Employee benefits	70 551	70 376	69 079	14	68	115	1 100
Non-profit business							
Individual	6 324	7 894	97	854	6 842	100	1
Annuity business	2 824	2 936	445	501	1 484	473	33
Subtotal policyholder liabilities under insurance and investment contracts	340 100	340 106	142 734	16 153	40 033	32 212	108 974
Cell captive and short-term business	17 719						
Total policyholder liabilities under insurance and investment contracts	357 819	340 106	142 734	16 153	40 033	32 212	108 974
Financial liabilities designated at fair value through income							
Collective investment scheme liabilities	39 720	40 799	25 869	10 788	3 317	825	–
Subordinated call notes	25 869	25 869	25 869	–	–	–	–
Carry positions	3 320	4 377	–	1 244	2 308	825	–
Preference shares	9 370	9 392	–	9 392	–	–	–
Other	1 016	1 016	–	16	1 000	–	–
Other	145	145	–	136	9	–	–
Derivative financial instruments ³	2 111						
Amortised cost	1 092	1 459	–	212	719	528	–
Cumulative redeemable convertible preference shares	293	378	–	43	335	–	–
Finance lease liabilities	2	2	–	1	1	–	–
Other	797	1 079	–	168	383	528	–
Reinsurance contract liabilities	659	659	–	135	337	157	30
Other payables at amortised cost ⁴	11 835	11 835	–	11 832	3	–	–
Other liabilities ⁵	8 557						
Total liabilities	421 793	394 858	168 603	39 120	44 409	33 722	109 004

48 LIQUIDITY RISK *continued*

Maturity profile of liabilities *continued*

Notes to the maturity profile of liabilities table:

- ¹ Open-ended liabilities are defined as:
 - policies where the policyholder is entitled to the benefit at any future point (benefits are contractually available on demand) or
 - where policies do not have a specified contract term.
- ² The cash flows for insurance and investment contracts with DPF liabilities are calculated using discounted expected cash flows. All other values are based on contractual undiscounted cash flows.
- ³ Cash flows for derivative financial instruments have been disclosed on a net basis on page 207.
- ⁴ Other payables exclude premiums paid in advance and deferred revenue liabilities.
- ⁵ Other liabilities are considered to be excluded from the scope of IAS 39 and IFRS 7; therefore no cash flows are provided for those liabilities.

Cash flows relating to policyholder liabilities under insurance and investment contracts (current in-force book) have been apportioned between future time periods in the following manner:

- In general, the earliest contractual maturity date is used for all liabilities.
- For investment contracts, the contractually required cash flows for policies that can be surrendered are the surrender values of such policies (after deduction of surrender penalties). It is assumed that surrender values are contractually available on demand and therefore these policies are disclosed as open-ended.
- For policies with no surrender value, the estimated contractual cash flow is disclosed.
- Contractual undiscounted cash flows are disclosed for investment contract liabilities designated at fair value through income.
- Expected discounted cash flows, ie the estimated timing of repayment of the amounts recognised in the statement of financial position, are disclosed for insurance contract liabilities and investment contracts with DPF liabilities. The assumptions used to calculate the statement of financial position value of these liabilities are disclosed in note 17.
- For investment contracts with DPF liabilities, the discretionary component of the liability has been allocated in line with the underlying expected benefits payable to policyholders.

Financial liabilities designated at fair value

- Collective investment scheme liabilities represent demand liabilities of scheme interests not held by the group arising as a result of consolidation.
- The cash flows relating to the subordinated call notes have been allocated to the earliest period in which they are callable by MMIGL. They will be funded from cash resources at that time. The shareholder funds include sufficient cash resources to fund the coupon payments under these call notes.
- Carry positions have a one-month rolling period and the funding thereof forms part of the general portfolio management.
- The preference shares are redeemable at the option of the issuer on any dividend payment date and the ultimate redemption date is 27 June 2017. It is expected that the preference shares will only be redeemed on the ultimate redemption date.

Financial liabilities carried at amortised cost

- It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The group has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.
- The subordinated redeemable debt was redeemed on 15 December 2014.
- Included in other payables at amortised cost is a loan from FirstRand Bank Ltd of R489 million (2014: R463 million). Interest on the loan is levied at the prime rate minus 1%. The interest is repaid monthly with the capital balance payable in December 2025. The loan is secured by the underlying property.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

48 LIQUIDITY RISK *continued* Maturity profile of liabilities *continued*

Restated 2014 R million	Carrying value	Total	Open- ended	0 to 1 year	1 to 5 years	5 to 10 years	> 10 years
Insurance contracts (discounted cash flows)	104 519	104 519	6 748	13 355	25 261	21 419	37 736
Linked (market-related) business							
Individual	21 937	21 937	1 266	2 326	4 865	4 502	8 978
Employee benefits	1 233	1 233	–	143	438	314	338
Smoothed bonus business							
Individual	28 297	28 297	1 116	3 517	7 568	7 401	8 695
Employee benefits	3	3	–	3	–	–	–
Conventional with-profit business	9 461	9 461	3 297	599	972	829	3 764
Non-profit business							
Individual	5 243	5 243	411	2 184	1 345	311	992
Employee benefits	2 215	2 215	43	1 249	337	242	344
Annuity business	36 130	36 130	615	3 334	9 736	7 820	14 625
Investment contracts with DPF (discounted cash flows)	25 347	25 347	19 010	667	2 106	1 536	2 028
Linked (market-related) business							
Individual	161	161	–	22	56	49	34
Smoothed bonus business							
Individual	7 467	7 467	1 226	650	2 069	1 508	2 014
Employee benefits	17 775	17 775	17 773	–	1	1	–
Conventional with-profit business	3	3	–	3	–	–	–
Non-profit business							
Individual	(59)	(59)	11	(8)	(20)	(22)	(20)
Investment contracts (undiscounted cash flows)	192 786	192 997	98 266	4 473	12 412	9 040	68 806
Linked (market-related) business							
Individual	120 325	118 738	35 543	2 407	5 070	7 852	67 866
Employee benefits	62 637	62 637	62 572	65	–	–	–
Non-profit business							
Individual	6 048	7 391	127	1 487	5 714	59	4
Annuity business	3 776	4 231	24	514	1 628	1 129	936
Subtotal policyholder liabilities under insurance and investment contracts	322 652	322 863	124 024	18 495	39 779	31 995	108 570
Cell captive and short-term business	15 947						
Total policyholder liabilities under insurance and investment contracts	338 599	322 863	124 024	18 495	39 779	31 995	108 570
Financial liabilities designated at fair value through income	30 801	31 705	22 313	5 111	3 380	901	–
Collective investment scheme liabilities	22 313	22 313	22 313	–	–	–	–
Subordinated call notes	2 573	3 477	–	219	2 357	901	–
Carry positions	4 851	4 851	–	4 851	–	–	–
Preference shares	1 001	1 001	–	1	1 000	–	–
Other	63	63	–	40	23	–	–
Derivative financial instruments	1 853						
Amortised cost	1 463	1 671	–	1 203	445	23	–
Cumulative redeemable convertible preference shares	313	453	–	46	407	–	–
Subordinated redeemable debt	511	523	–	523	–	–	–
Finance lease liabilities	2	2	–	1	1	–	–
Other	637	693	–	633	37	23	–
Reinsurance contract liabilities	202	202	–	3	39	53	107
Other payables at amortised cost	8 548	8 548	–	8 545	3	–	–
Other liabilities	7 828						
Total liabilities	389 294	364 989	146 337	33 357	43 646	32 972	108 677

48 LIQUIDITY RISK *continued*

Maturity profile of derivative financial instruments

Contractual maturities are assessed to be essential for an understanding of all derivatives presented in the consolidated statement of financial position. The following table indicates the expiry of derivative financial assets and liabilities, based on net undiscounted cash flow projections. When the amount payable is not fixed, the amount disclosed is determined by reference to conditions existing at the reporting date.

Some of the group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity date.

2015 R million	Carrying value	Total	0 to 1 year	1 to 5 years	> 5 years
Derivatives held for trading					
Equity derivatives	(39)	(56)	(56)	–	–
Interest rate derivatives	669	425	18	1 537	(1 130)
Bond derivatives	44	44	44	–	–
Credit derivatives	(3)	(14)	5	2	(21)
Currency derivatives	(755)	(333)	(35)	(59)	(239)
	(84)	66	(24)	1 480	(1 390)
Derivatives held for hedging					
Fair value hedges	6	6	6	–	–
Total net undiscounted cash flow projections	(78)	72	(18)	1 480	(1 390)
Derivative financial instruments					
Assets	2 033				
Liabilities	(2 111)				
	(78)				
2014					
R million					
Derivatives held for trading					
Equity derivatives	(70)	(80)	(80)	–	–
Interest rate derivatives	839	1 680	258	661	761
Bond derivatives	9	9	9	–	–
Credit derivatives	2	3	–	1	2
Currency derivatives	(286)	(125)	2	6	(133)
	494	1 487	189	668	630
Derivatives held for hedging					
Fair value hedges	15	15	13	2	–
Total net undiscounted cash flow projections	509	1 502	202	670	630
Derivative financial instruments					
Assets	2 362				
Liabilities	(1 853)				
	509				

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49 MARKET RISK

The key components of market risk are: price risk, interest rate risk and currency risk. Financial instruments held by the group are subject to the components of market risk as follows:

	Carrying value		Market price risk	Interest rate risk	Currency risk
	2015 Rm	Restated 2014 Rm			
Assets					
Carried at fair value					
Designated at fair value through income					
Equity securities	104 748	100 790	✓✓		✓
Debt securities	104 176	88 788	✓	✓✓	✓
Funds on deposit and other money market instruments	24 473	24 941	✓	✓✓	✓
Unit-linked investments	132 330	120 477	✓✓	✓	✓
Investments in associates designated at fair value through income	12 362	11 900	✓✓	✓	✓
Derivative financial instruments					
Held for trading	2 027	2 347	✓✓	✓✓	✓
Held for hedging purposes	6	15	✓✓	✓✓	✓
Available-for-sale					
Equity securities	195	94	✓✓		
Debt securities	–	31	✓	✓✓	
Local unlisted quoted collective investment schemes	13	4	✓✓		
Carried at amortised cost					
Held-to-maturity					
Funds on deposit and other money market instruments	42	85		✓✓	✓✓
Debt securities	31	15		✓	✓
Loans and receivables					
Accounts receivable	2 790	2 444		✓	✓
Unsettled trades	2 503	772			✓
Loans	2 359	2 370		✓✓	✓
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669		✓	✓
Cash and cash equivalents	26 174	28 875		✓✓	✓
Other assets	28 753	26 891	N/A	N/A	N/A
Total assets	446 841	414 508			

		Carrying value		Market price risk	Interest rate risk	Currency risk
		2015 Rm	Restated 2014 Rm			
49	MARKET RISK <i>continued</i>					
	Liabilities					
	Carried at fair value					
	Investment contracts					
	Designated at fair value through income	220 356	201 651	✓✓	✓✓	✓
	Designated at fair value through income					
	Collective investment scheme liabilities	25 869	22 313	✓✓	✓	✓
	Subordinated call notes	3 320	2 573	✓	✓✓	
	Carry positions	9 370	4 851	✓	✓✓	
	Preference shares	1 016	1 001	✓	✓✓	
	Other	145	63		✓	✓
	Derivative financial instruments					
	Held for trading	2 111	1 853	✓✓	✓✓	✓
	Carried at amortised cost					
	Financial liabilities					
	Cumulative redeemable preference shares	293	313		✓✓	
	Subordinated redeemable debt	–	511		✓✓	
	Finance lease liabilities	2	2		✓✓	
	Other	797	637		✓	
	Other payables					
	Payables arising from insurance contracts and investment contracts with DPF (excluding premiums received in advance)	2 465	2 396			✓
	Payables arising from investment contracts	1 451	1 025			✓
	Collective investment scheme income distribution payable	636	218			✓
	Unsettled trades	3 187	992			✓
	Commission creditors	573	550		✓	✓
	Other payables at amortised cost	3 523	3 367		✓	✓
	Insurance contract liabilities	111 329	111 543	*	*	*
	Investment contracts with DPF liabilities	26 134	25 405	✓✓	✓✓	✓✓
	Other non-financial liabilities	9 216	8 030	N/A	N/A	N/A
	Total liabilities	421 793	389 294			

✓✓ High exposure

✓ Medium/low exposure

* These liabilities are not financial instruments and the risks to which they are subject to are explained in note 45.

Market risk is the risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held.

For discretionary participation business, market-related contracts or unit-linked contracts:

- the policyholder carries the majority of the market risk; while
- the group carries a risk of investment guarantees provided and of a reduced income from fees where these are based on investment returns or the underlying fund value or where investment conditions affect its ability to recoup expenses incurred.

Furthermore, MMI is also exposed to reputational risk if actual investment performance is not in line with policyholder expectations.

For non-profit business (including annuities) and in respect of the net asset value, shareholders carry the market risk.

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49 MARKET RISK *continued*

Market risk governance

Shareholder market risk is managed according to the MMI Shareholder Asset and Liability Management (ALM) Policy while the Client Investment Management Policy governs the management of policyholder market risk.

The executive BSM is responsible for the group's market risk management, with the board Risk Capital and Compliance committee providing oversight over market risks assumed on behalf of shareholders.

The MMI Policyholder Investment Committee provides oversight over the management of policyholder market risk. Policyholder market risk is managed through various management-level governance committees established for this purpose. The committees monitor the performance of investment portfolios against client outcome requirements. This includes consideration of the appropriateness of the matching of assets and liabilities of the various policyholder portfolios where policyholder benefits are impacted by investment returns.

For contract holder liabilities, the financial instruments backing each major line of business are segregated to ensure that they are used exclusively to provide benefits for the relevant contract holders. The valuation of these financial instruments is subject to various market risks, particularly interest rate and price risk. Each portfolio consists of an asset mix deemed appropriate for the specific product. These risks and the group's exposure to equity, interest rate, currency and property price risks are discussed and disclosed below.

Market risk management per product

Individual and group contracts with discretionary participation features (DPF)

Assets are invested in line with specified mandates in equities, fixed-interest assets, property and cash, both globally and locally, according to the asset manager's best investment view. Separate investment portfolios are managed for each product.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, reasonable policyholder expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a bonus stabilisation account (BSA) for future distribution to policyholders.

In the event of adverse investment performance, such as a sudden or sustained fall in the market value of assets backing smoothed bonus business, the BSA may be negative. In such an event, there are the following options:

- In valuing the liabilities it is assumed that lower bonuses will be declared in future.
- Lower bonuses are actually declared.
- For those contracts where a portion of bonuses declared is not vested, the group has the right to remove previously declared non-vested bonuses in the event of a fall in the market value of assets. This will only be done if the BSA is negative and it is believed that markets will not recover in the short term.
- A market value adjuster may be applied in the event of voluntary withdrawal in cases where the withdrawal benefit exceeds the market value. For group contracts, an alternative option is to pay out the termination value over an extended term (usually 10 years). These measures are primarily to protect the remaining policyholders.
- Short-term derivative hedging strategies can be used to protect the funding level against further deterioration due to poor investment performance.
- An additional BSA is held for the benefit of shareholders to provide an additional layer of protection under extreme market conditions against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This liability is in addition to the policyholder bonus stabilisation accounts described elsewhere, and is not distributed to policyholders other than in very extreme circumstances.
- In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

Individual and group contracts with discretionary participation features (DPF) and continuous guarantees

Certain portfolios provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance.

No market value adjuster applies but for group contracts, allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Derivative instruments are used to minimise downside market risk in these portfolios.

To protect equity between different generations of policyholders, the additional BSA may be utilised to temporarily or permanently top up the BSA on recommendation of the Actuarial Committee and approval from the board.

49 MARKET RISK *continued*

Market risk management per product *continued*

Market-related/unit-linked business

Market-related or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts and include universal life contracts which also provide cover on death or disability.

Policyholders carry the investment risk; however, the group carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. Furthermore, there is also reputational risk if actual investment performance is not in line with policyholder expectations. These risks are managed through the rigorous investment research process applied by the group's investment managers, which is supported by technical as well as fundamental analysis.

Individual contracts offering investment guarantees

The group has books of universal life business that offer minimum maturity values, based on a specified rate of investment return. These guaranteed rates range from 0% to 4.5% p.a. for the bulk of business. This applies to smoothed bonus portfolios as well as certain market-linked portfolios (the latter mostly closed to new business). On some smoothed bonus portfolios, there is also a guarantee to policyholders that the average annual bonus rate, measured over the lifetime of the contract, will not be less than a contractual minimum (around 4.5% p.a.). There is also a portion of universal smoothed bonus fund values that is deemed vested and thereby constitutes an additional form of investment guarantee. Similarly, on reversionary bonus business, an investment guarantee in the form of sum assured and declared reversionary bonuses is given.

The group also carries conventional business that offers minimum guarantees on maturity, surrender and death, with different forms of guarantees that apply in each event.

On some closed funds policyholders have the option to purchase a minimum guaranteed return of up to 5% p.a. The guarantee charge for these policies is set at a level that will cover the expected cost of guarantees, including the opportunity cost of additional capital held in respect of these guarantees. Only selected portfolios qualify for this guarantee and the guarantee also applies only to specific terms.

On inflation-linked annuities a minimum annual increase rate is generally applicable, for instance as a consequence of regulatory requirements whereby pension income cannot reduce in nominal terms. The minimum increase represents an inflation related embedded financial guarantee.

The risk of being unable to meet guarantees is managed by holding a specific liability, as well as additional statutory capital, for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns, in accordance with actuarial guidance (APN 110). Stochastic modelling is used to quantify the reserves and capital required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The stochastic model is calibrated to market data. The shareholders' exposure to fluctuations in this liability is mitigated by the use of hedging strategies, subject to available instruments and the overall risk profile of the business.

Non-profit annuity business

An annuity policy pays an income to the annuitant in return for a lump sum consideration paid on origination of the annuity policy. Income payments may be subject to a minimum period. The income may be fixed or increase at a fixed rate or in line with inflation.

This income is guaranteed and the value of the liability is, therefore, subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks, swaps and other interest rate derivatives which provide a high degree of matching to the interest risk profile of the liabilities. The mismatch risk is managed on a dedicated risk management system that includes daily monitoring of board-approved limits. Index-linked annuities, which provide increases in line with inflation, are generally matched with index-linked bonds. Where cash flow matching is not possible, or not desirable from an overall risk profile perspective, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates.

The impact of a 1% reduction in yields on the annuity portfolio will generate a mismatch loss of R60 million (2014: R6 million) for MMIGL.

The liability valuation calculation for MMIGL annuities is based on the risk-free yield curve. The average rate that produces the same result is 8.9% (2014: 9.0%).

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49 MARKET RISK *continued*

Market risk management per product *continued*

Guaranteed endowments and structured products

The group issues guaranteed endowment policies – the majority of these contracts are five-year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The obligation is hedged by investing in assets that will provide the required yield at the relevant date and term.

A variation on guaranteed endowment policies are contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The risk associated with the guarantee on these contracts is managed through the purchase of appropriate assets and the risk of the offshore indices is generally hedged through equity-linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reinsurers in terms of the group's reinsurance policies.

Other non-profit business

These policies mainly represent whole life and term assurance contracts that provide lump sum benefits on death and disability. In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. The market risk on these contracts is mitigated through an actively managed combination of interest rate securities and interest rate derivatives.

Individual life investment products

The expected future charges, expense outgo and risk benefit payments (including margins) on investment business are capitalised using a long-term interest rate. The resultant discounted value is added to liabilities (an offset to liabilities when negative). The group is therefore subject to interest rate risk as any changes in long-term interest rates will result in a change in the value of liabilities.

49.1 Market risk management per risk factor

Equity risk

Equity risk is the risk of financial loss as a result of adverse movements in the market value of equities, implied volatility and/or income from equities.

Equities (listed and unlisted) are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification, while systemic risk cannot.

The group manages its listed equity risk by employing the following procedures:

- mandating specialist equity fund managers to invest in listed equities where there is an active market and where there is access to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long-term Insurance Act, 52 of 1998;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB; and
- considering the risk-reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

Unlisted equity investment risks are managed as follows:

- mandating asset managers and specialist alternative investment boutiques to invest in diversified pools of private equity partnerships and other unlisted equity investments;
- achieving diversification across sector, stage, vintage and geography;
- all investments are subject to prudential limits stipulated by the MMI unlisted investments board, represented by the specialist investment professionals and independent MMI representatives; and
- mitigating the risk of potential subjective valuation due to the nature of unlisted investments by utilising the guideline developed by the South African Venture Capital and Private Equity Association (SAVCA) to provide a framework for valuation and disclosure in this regard. This framework is consistent with best practice exercised and recommended by the European Venture Capital and Private Equity Association.

Refer to sensitivity analysis in note 49.5.

49 MARKET RISK *continued*

49.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments held will fluctuate relative to those of liabilities issued, as a result of changes in interest rates.

Exposure of financial instruments to interest rates

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the group's investment portfolios are subject to changes in prevailing market interest rates. The table below provides a split of interest-bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk. Debt securities with no interest rate risk exposure are securities where the valuation is driven by factors other than interest rates, such as capital structured notes where the valuation is derived from the underlying investments. Loans and receivables with short-term cash flows are considered not to have any interest rate risk since the effect of interest rate risk on these balances is not considered significant. Due to practical considerations, interest rate risk details contained in investments in non-subsiary unit-linked investments are not provided.

Instrument class 2015	Carrying value Rm	Cash flow interest rate risk Rm	Fair value interest rate risk Rm	No interest rate risk Rm	Weighted average rate %
Designated at fair value through income					
Debt securities	104 176	36 443	64 638	3 095	7.4
Funds on deposit and other money market instruments	24 473	20 992	3 481	–	6.6
Derivative financial assets	2 033	–	2 033	–	N/A
Derivative financial liabilities	(2 111)	–	(2 111)	–	N/A
Held-to-maturity					
Funds on deposit and other money market instruments	42	–	42	–	10.0
Debt securities	31	–	31	–	6.4
Cash and cash equivalents	26 174	21 137	4 762	275	3.7
Loans and receivables	7 652	1 544	933	5 175	5.2
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	516	193	3 150	–
	166 329	80 632	74 002	11 695	
Restated 2014					
Designated at fair value through income					
Debt securities	88 788	31 745	53 663	3 380	6.9
Funds on deposit and other money market instruments	24 941	21 012	3 929	–	6.9
Derivative financial assets	2 362	–	2 362	–	N/A
Derivative financial liabilities	(1 853)	–	(1 853)	–	N/A
Available-for-sale					
Debt securities	31	31	–	–	6.0
Held-to-maturity					
Funds on deposit and other money market instruments	85	85	–	–	6.9
Debt securities	15	15	–	–	6.0
Cash and cash equivalents	28 875	26 920	1 197	758	3.8
Loans and receivables	5 586	1 017	584	3 985	6.9
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 669	22	8	3 639	–
	152 499	80 847	59 890	11 762	

There is a contractual re-pricing of the coupon interest rate prior to the maturity date on the held-to-maturity assets with a carrying value of Rnil (2014: R76 million).

Liability exposure to interest rates is reflected in notes 18 and 19.

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49 MARKET RISK *continued*

49.3 Currency risk

Currency risk is the risk that the rand value and/or future cash flows of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of the group's currency exposure results from the offshore assets held by policyholder portfolios. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates, subject to limitations imposed by the South African Reserve Bank.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

Details of currency risk contained in investments in local collective investment schemes that are not subsidiaries have not been included in the table below as the look-through principle was not applied.

Assets and liabilities denominated in Namibian dollar, Lesotho maluti and Swazi emalangeni currencies that are pegged to the South African rand on a 1:1 basis do not form part of the currency risk of the group. The geographical area of Africa includes Botswana, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Tanzania and Zambia.

The following assets, denominated in foreign currencies, where the currency risk (including translation risk) resides with the group, are included in the group's statement of financial position at 30 June:

2015	Africa Rm	UK £ Rm	US \$ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
<i>Closing exchange rate</i>		19.1850	12.1733	13.6512			
Investment securities							
Designated at fair value through income							
Equity securities	1 208	2 384	15 597	1 481	1 877	1 154	23 701
Debt securities	1 139	148	2 254	1 611	–	3	5 155
Funds on deposit and other money market instruments	274	4	5	–	–	5	288
Unit-linked investments	–	1 209	28 182	1 331	3	83	30 808
Investments in associates	–	77	250	–	–	–	327
Derivative financial instruments	–	–	45	1	–	1	47
Available-for-sale							
Equity securities	179	–	–	–	–	–	179
Held-to-maturity							
Funds on deposit and other money market instruments	42	–	–	–	–	–	42
Debt securities	31	–	–	–	–	–	31
Loans and receivables	209	39	224	17	21	3	513
Cash and cash equivalents	628	392	5 001	558	100	9	6 688
Other financial assets	102	–	250	–	–	–	352
	3 812	4 253	51 808	4 999	2 001	1 258	68 131

49 MARKET RISK *continued*
49.3 Currency risk *continued*

2014	Africa Rm	UK £ Rm	US \$ Rm	Euro Rm	Asian Pacific Rm	Other Rm	Total Rm
<i>Closing exchange rate</i>		18.0649	10.6133	14.4904			
Investment securities							
Designated at fair value through income							
Equity securities	1 184	1 985	13 654	1 591	1 460	1 198	21 072
Debt securities	928	40	1 700	1 472	5	4	4 149
Funds on deposit and other money market instruments	330	14	16	28	–	–	388
Unit-linked investments	–	1 119	23 895	1 021	68	52	26 155
Investments in associates	–	1	373	–	–	–	374
Derivative financial instruments	–	–	71	1	–	–	72
Available-for-sale							
Equity securities	22	–	30	1	–	35	88
Debt securities	30	–	–	–	–	–	30
Held-to-maturity							
Funds on deposit and other money market instruments	85	–	–	–	–	–	85
Debt securities	15	–	–	–	–	–	15
Loans and receivables	198	84	402	2	7	–	693
Cash and cash equivalents	557	448	5 095	679	65	3	6 847
Other financial assets	185	–	2	–	–	–	187
	3 534	3 691	45 238	4 795	1 605	1 292	60 155

The assets above generally back policyholder liabilities, reducing the currency risk exposure for shareholders.

African exchange rates representing material balances above are:

<i>Closing exchange rate</i>	Botswana	Ghana	Kenya	Nigeria
2015	1.2332	2.7949	0.1228	0.0618
2014	1.2062	3.4072	0.1212	0.0652

49.4 Property risk

Property risk is the risk that the value of investment properties, owner-occupied properties and properties under development, as well as participatory interest in property collective investment schemes, will fluctuate as a result of changes in rental income and interest rates.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

The group's exposure to property holdings at 30 June is as follows:

	2015 Rm	2014 Rm
Investment properties	7 212	7 675
Owner-occupied properties	3 030	1 714
Properties under development	330	252
Collective investment schemes > 55% property exposure (refer to Annexure B)	5 115	2 862
	15 687	12 503
Percentage of total assets	3.5%	3.0%

Refer to note 4 for the concentration risk regarding types of properties relating to investment properties. Owner-occupied properties mainly comprise office buildings.

The group is also exposed to tenant default and unlet space within the investment property portfolio. There were no material long outstanding debtors relating to tenants at 30 June 2015. The carrying amount of unlet and vacant investment property as at 30 June 2015 was R553 million (2014: R301 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

49 MARKET RISK *continued*

49.5 Sensitivity to market risk

The group's earnings and net asset value are exposed to insurance and market risks. The group has identified that changes in insurance risk, equity prices and interest rates have the most significant effect on earnings and equity. Refer to note 17 for sensitivities around insurance risk. The table below provides the sensitivity to a change in equity prices by 10% and a change to long-term interest rates by 100 basis points.

2015	Equity prices		Interest rates	
	Increase by 10% Rm	Decrease by 10% Rm	Increase by 100 bps Rm	Decrease by 100 bps Rm
Increase/(decrease) in earnings per income statement	414	(407)	63	(63)
Increase/(decrease) in equity	645	(639)	63	(63)
Restated 2014				
Increase/(decrease) in earnings per income statement	304	(305)	8	(12)
Increase/(decrease) in equity	561	(563)	8	(12)

2014 reclassification

Prior year sensitivities have been restated to reflect updated interpretation of the items on which sensitivities were applied relating inter alia to the treatment of subsidiaries.

Sensitivity ranges

- The upper and lower limits of the sensitivity ranges are management's best judgement of the range of probable changes within a 12-month period from the reporting date.
- These limits are set taking into account actuarial guidance relating to acceptable ranges of sensitivities within a normal asset distribution. Extreme or irregular events that occur sporadically, ie not on an annual basis, have been ignored as they are, by nature, not predictable in terms of timing.

Methods and assumptions used in preparing the sensitivity analysis

- The changes in equity prices and interest rates have been applied to the assets and liabilities at the reporting date and to net income for the year just ended.
- The assets are impacted by the sensitivity at the reporting date. The new asset levels are applied to the measurement of contract holder liabilities, where applicable.
- In line with MMI's current practice and accounting policy, the investment variances from insurance contracts were stabilised.
- The change in equity prices was assumed to be a permanent change.
- Future dividend yields were assumed to remain unchanged.
- No change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes in equity prices.
- The expected future real rates of return were assumed to remain unchanged.
- Future inflation rates were assumed to change in line with interest rates.
- Sensitivities on expected taxation have not been provided.

Mitigation

Hedging strategies using derivatives and other structures are implemented to reduce equity and interest rate risk on shareholder exposures in accordance with risk appetite requirements. These structures and other ways of reducing this risk are assessed, investigated and implemented on an ongoing basis by management with consideration of the market conditions at any given time.

The impact of the change in interest rates is addressed by ensuring that contract holder liabilities and assets are matched within approved risk limits and tolerances and continuously monitored to ensure that no significant mismatching losses will arise due to a shift in the yield curve or a change in the shape of the yield curve.

Currency sensitivity

The impact of changes in currency on earnings and equity for the group is not considered to be material. Refer to note 49.3 for more details on the group's currency exposure.

50 CREDIT RISK

Credit risk refers to the risk of loss, or of adverse change in the financial position, resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation or due to deterioration in the financial status of the counterparty and any debtors to which shareholders and policyholders are exposed.

Credit risk could also arise from the decrease in value of an asset because of a deterioration of creditworthiness (which may give rise to the downgrading of counterparties). Credit risk arises from investments in debt securities, funds on deposit and other money market instruments, unit-linked investments, derivative financial instruments, available-for-sale debt securities, held-to-maturity investments, reinsurance debtors, loans to policyholders and other loans and receivables in the shareholder and guaranteed portfolios as well as linked portfolios.

Where instruments are held to back investment-linked contract liabilities, the policyholder carries the credit risk. Where instruments are held in *cell captive* arrangements, where the cell owner takes the risk, the credit risk is also transferred.

Credit risk governance

The governance of credit risk is comprehensively set out in the executive BSM charter. The primary responsibility of the executive BSM is to oversee, and ensure proper corporate governance over and management of market risk, which includes credit risk, across the group in respect of shareholders. The executive BSM charter forms part of the overall enterprise risk management (ERM) framework. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the executive BSM, executive management and the credit risk management function. The product approval committees are responsible for setting the credit risk sections of mandates for linked policyholder portfolios and policyholder investment committees are responsible for monitoring the performance.

The executive BSM is a sub-committee of the group executive committee. This committee reports to the group's executive committee on the effectiveness of credit risk management and provides an overview of the group's shareholder credit portfolio. The executive BSM and its sub-committees are responsible for the approval of relevant credit policies and the ongoing review of the group credit exposure. This includes the monitoring of the following:

- quality of the credit portfolio
- stress quantification
- credit defaults against expected losses
- credit concentration risk
- appropriateness of loss provisions and reserves.

Independent oversight is also provided by the Balance Sheet Management committee of the board (board BSM committee).

Managing credit risk

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the executive BSM has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the group's credit risk appetite.

A credit approval committee, which is a sub-committee of the executive BSM, is responsible for approving credit assets for shareholder portfolios. The approval is subject to:

- the underlying nature of the instrument and credit strength of the counterparty
- the credit rating of the issuer, either internally generated or external from either Fitch, Moody's, S&P or GCR
- current exposure and portfolio diversification effects.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio which includes:

- the use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof
- preparing credit applications and performing annual reviews.

Regular risk management reporting to the executive BSM includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

50 CREDIT RISK *continued*

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the board BSM committee) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

Unit-linked investments

The group is exposed to credit risk generated by debt instruments which are invested by collective investment schemes and other unit-linked investments in which the group invests. The group's exposure to these funds is classified at fund level (refer to Annexure B for unit-linked categories) and not at the underlying asset level. This includes the investments in associated collective investment schemes. Although the funds are not rated, fund managers are required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets. Further credit risk reduction measures are obligatory for South African collective investment schemes as required by control clauses within the Collective Investment Scheme Control Act, 45 of 2002.

Derivative contracts

The group enters into derivative contracts with A-rated local banks on terms set out by the industry standard International Swaps and Derivatives Agreements (ISDA). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty, resulting in only the net exposure being included in the overall group counterparty exposure analysis.

For OTC equity index options, the credit risk is managed through the creditworthiness of the counterparty in terms of the group's credit risk exposure policy. For OTC interest rate swaps, the group enters into margining arrangements with counterparties, which limit the exposure to each counterparty to a level commensurate with the counterparty's credit rating and the value-at-risk in the portfolio. For exchange-traded options, credit risk is largely mitigated through the formal trading mechanism of the derivative exchange.

Scrip lending

The group is authorised to conduct lending activities as a lender in respect of local listed equity securities and listed government stock to appropriately accredited institutions. In general, the lender retains the full economic risks and rewards of securities lent.

Scrip lending agreements are governed by GMSLA agreements.

The main risk in scrip lending activities is the risk of default by the borrower of securities, ie the borrower fails to return the borrowed securities. Borrower default risk is mitigated by either requiring borrowers to post adequate levels of high-quality collateral and/or by the use of indemnity guarantees from the borrowers.

Where collateral is received, the group monitors collateral levels on a daily basis and the status of collateral coverage is reported to the executive BSM on a quarterly basis. This collateral serves as security for the scrip lending arrangements in the event of default by the borrowers. Where the borrower default risk is mitigated by means other than collateral, the group monitors the counterparty credit exposure to be within approved limits and the group ensures that credit risk capital is held against counterparty credit exposure.

Loans and receivables

Due from agents, brokers and intermediaries

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back on a sliding scale within the first two years of origination. As the largest portion of the group's new business premiums arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low, and relates mainly to independent intermediaries.

An impairment of commission debtors is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Policy loans

The group's policy is to lapse a policy automatically where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable. Consequently, the policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy as determined in accordance with the accounting policies.

Policy loans are secured by policies issued by the group. In terms of the regulations applicable to the group, the value of policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which the group owns.

50 **CREDIT RISK** *continued*

Loans and receivables *continued*

Reinsurance

The group only enters into reinsurance treaties with reinsurers registered with the FSB. The credit rating of the company is assessed when placing the business and when there is a change in the status of the reinsurer. If a reinsurer fails to pay a claim, the group remains liable for the payment to the contract holder.

The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no material instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Credit risk exposure

The group's maximum exposure to credit risk is through the following classes of assets, and is equal to their carrying values:

	2015 Rm	Restated 2014 Rm
Designated at fair value through income		
Debt securities	104 176	88 788
Stock and loans to government and other public bodies	44 255	35 452
Other debt instruments	59 921	53 336
Funds on deposit and other money market instruments	24 473	24 941
Unit-linked investments (categorised as interest-bearing and money market – refer to Annexure B)	19 541	19 699
Collective investment schemes	17 560	17 679
Other unit-linked investments	1 981	2 020
Derivative financial instruments	2 033	2 362
Held for trading	2 027	2 347
Held for hedging purposes	6	15
Available-for-sale		
Debt securities	–	31
Held-to-maturity	73	100
Funds on deposit and other money market instruments	42	85
Debt securities	31	15
Loans and receivables	7 652	5 586
Accounts receivable	2 790	2 444
Unsettled trades	2 503	772
Loans	2 359	2 370
Other receivables		
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	3 859	3 669
Cash and cash equivalents	26 174	28 875
Total assets bearing credit risk	187 981	174 051

Financial assets and liabilities designated at fair value through income

Certain instruments in the group's statement of financial position, listed per class in the table on the following page, that would have otherwise been classified as loans and receivables or payables under IAS 39, have been designated at fair value through income.

The current year and cumulative fair value movements in these instruments were mainly due to market movements. The current year fair value movement includes R69 million loss attributable to credit risk (determined to be the difference between the fair value based on the original credit rating and the fair value based on any adjusted credit rating as observed in the market). The fair value movement attributable to credit risk for the prior year was not considered significant.

On 12 March 2015, Fitch affirmed the credit ratings of MMIGL. The National Insurer Financial Strength rating of MMIGL was affirmed at "AA+(zaf)" with a Stable Outlook. Fitch simultaneously affirmed the credit rating of MMIGL's subordinated notes at "A+(zaf)".

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

50 CREDIT RISK *continued* Financial assets and liabilities designated at fair value through income *continued*

	Carrying value	
	2015 Rm	Restated 2014 Rm
Assets		
Debt securities	71 710	66 316
Funds on deposit and other money market instruments	14 531	11 740
	86 241	78 056
Liabilities		
Policyholder liabilities under investment contracts	220 356	201 651
Collective investment scheme liabilities	25 869	22 313
Subordinated call notes	3 320	2 573
Carry positions	9 370	4 851
Preference shares	1 016	1 001
Other	145	63
	260 076	232 452

Security and credit enhancements

In terms of the credit risk associated with the instruments above, the following collateral is held in order to mitigate the credit risk:

Debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments

For debt securities, unit-linked investments, cash and cash equivalents and derivative financial instruments, the credit risk is managed through the group's credit risk exposure policy described above.

Debt securities

The group has a continuing guarantee relating to the full payment of the value of certain annuities, up to a maximum of R1 billion, if an event of default occurs. The fair value of these debt instruments at the reporting date was R221 million (2014: R198 million).

The group acquired cash flows of property rental agreements of which a portion, with a total market value of R936 million (2014: R1 121 million), is secured by direct properties. The market value of the properties exceed the fair value of the rentals.

Linked notes

The group has put options with Rand Merchant Bank (RMB) against the linked notes listed and issued by RMB for the guaranteed capital amounts invested which are exercisable when the market value of the underlying instruments supporting the notes decreases below the guaranteed amounts. The carrying value of these investments included in other debt securities designated at fair value through income was R953 million at 30 June 2015 (2014: R1 159 million).

Transfers of financial assets

The group is involved in the transfer of financial assets through scrip lending and sale and repurchase of assets agreements (refer note 18). Refer below for detail on scrip lending arrangements as well as related security and credit enhancements. Also refer to the accounting policies for more detail on the nature of the arrangements.

The carrying value of scrip lent is R2 157 million (2014: R2 069 million) consisting of local listed equity securities. There is no collateral on the scrip lent as at the end of the current or prior year.

50 **CREDIT RISK** *continued*

Security and credit enhancements *continued*

Offsetting

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

Financial assets	Derivative financial assets	
	2015 Rm	2014 Rm
Gross amounts of recognised financial assets	2 033	2 494
Gross amounts of recognised financial liabilities set off in the statement of financial position	–	(132)
Net amounts of financial assets presented in the statement of financial position	2 033	2 362
Related amounts not set off in the statement of financial position		
Financial instruments	(791)	(824)
Net amount	1 242	1 538

Financial liabilities	Derivative financial liabilities	
	2015 Rm	2014 Rm
Gross amounts of recognised financial liabilities	2 111	1 985
Gross amounts of recognised financial assets set off in the statement of financial position	–	(132)
Net amounts of financial liabilities presented in the statement of financial position	2 111	1 853
Related amounts not set off in the statement of financial position		
Financial instruments	(791)	(824)
Net amount	1 320	1 029

Loans and receivables

The receivables arising from investment contracts are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

Policy loans of R1 444 million (2014: R1 421 million) are limited to and secured by the underlying value of the unpaid policy benefits. For further details refer to note 7. The underlying value of the policy benefits exceed the policy loan value.

Other receivables

Amounts receivable in terms of long-term insurance contracts and investment contracts with DPF are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

50 CREDIT RISK *continued*

Credit quality

The assets in the group's maximum exposure table on page 219 are analysed in the table below, using national scale long-term credit ratings issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available. The internal rating scale is based on internal definitions and influenced by definitions published by external rating agencies including Fitch, Moody's, S&P and GCR.

Rating definitions

AAA National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.

AA National ratings denote a very strong credit risk relative to all other issuers.

A National ratings denote a strong credit risk relative to all other issuers.

BBB National ratings denote an adequate credit risk relative to all other issuers.

BB National ratings denote a fairly weak credit risk relative to all other issuers.

B National ratings denote a significantly weak credit risk relative to all other issuers.

CCC National ratings denote an extremely weak credit risk relative to other issuers.

Unrated The group invests in unrated assets where investment mandates allow for this. These investments are however subject to internal credit assessments.

2015	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	CCC ² Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	29 427	5 493	9 079	–	–	42	–	214	44 255
Debt securities – other debt instruments	9 663	7 480	37 147	2 184	310	281	1 324	1 532	59 921
Cash and cash equivalents and funds on deposit	5 268	18 532	23 551	419	6	59	31	2 781	50 647
Derivative financial instruments	464	76	1 485	–	–	–	–	8	2 033
Held-to-maturity	23	–	–	–	–	–	–	50	73
Other unrated instruments									
Loans and other receivables	–	–	–	–	–	–	–	8 278	8 278
Other receivables	–	–	–	–	–	–	–	3 020	3 020
Unit-linked investments ¹	–	–	–	–	–	–	–	19 541	19 541
Past due or impaired assets	–	–	–	–	–	–	–	213	213
	44 845	31 581	71 262	2 603	316	382	1 355	35 637	187 981

¹ Refer to page 258 for detail on unit-linked investments and page 218 for credit risk management relating to unit-linked investments.

² ABIL and its various subsidiaries were placed under curatorship during the current year. These instruments are classified as CCC in the current year.

50 **CREDIT RISK** *continued*
Credit quality *continued*

Restated 2014	AAA Rm	AA Rm	A Rm	BBB Rm	BB Rm	B Rm	Unrated Rm	Total Rm
Debt securities – stock and loans to government and other public bodies	20 070	12 412	2 909	–	11	12	38	35 452
Debt securities – other debt instruments	7 208	33 431	9 235	1 124	158	108	2 072	53 336
Cash and cash equivalents and funds on deposit	4 940	34 413	7 355	1 118	–	182	5 808	53 816
Derivative financial instruments	389	1 892	74	–	–	–	7	2 362
Available-for-sale	–	–	–	–	–	–	31	31
Held-to-maturity	76	–	–	–	–	–	24	100
Other unrated instruments								
Loans and other receivables	–	–	–	–	–	–	4 418	4 418
Other receivables	–	–	–	–	–	–	2 288	2 288
Unit-linked investments ¹	–	–	–	–	–	–	19 699	19 699
Past due or impaired assets	–	–	–	–	–	–	2 549	2 549
	32 683	82 148	19 573	2 242	169	302	36 934	174 051

¹ Refer to page 258 for detail on unit-linked investments and page 218 for credit risk management relating to unit-linked investments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

50 CREDIT RISK *continued*

Credit quality *continued*

Credit quality of reinsurers

The table below represents the reinsured portion of all the businesses with whom the group has reinsured (included in Other receivables) as well as their respective national scale credit rating issued by rating agencies, or national scale ratings generated by an internal model where rating agency ratings are not available:

Reinsurer	2015		2014	
	Reinsured portion – %	Credit rating	Reinsured portion – %	Credit rating
Swiss Re	24%	AA	20%	AA
General Cologne Re	22%	AA	19%	AA
Hannover Re	5%	AA	8%	A
RGA Re	6%	AA	5%	AA
Munich Re	18%	AA	29%	AA
Other	25%	A	19%	–
	100%		100%	

The following tables analyse the age of financial assets that are past due as at the reporting date but not impaired.

	0 – 90 days Rm	90 days – 1 year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
2015					
Securities designated at fair value through income ¹					
Debt securities – other debt instruments	225	485	–	–	710
Unit-linked investments	1	–	–	–	1
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	247	123	96	8	474
Accounts receivable	874	232	100	7	1 213
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	1 027	10	–	19	1 056
	2 374	850	196	34	3 454
2014					
Loans and receivables					
Loans (including amounts due from agents, brokers and intermediaries)	99	61	39	2	201
Accounts receivable	393	955	23	1	1 372
Other receivables					
Receivables arising from insurance contracts, investment contracts with DPF and reinsurance contracts	738	80	121	–	939
	1 230	1 096	183	3	2 512

¹ The securities designated at fair value through income in the current year relate to the ABIL instruments that have matured but has not yet been repaid as at year-end.

51 VALUATION TECHNIQUES

The group's in-house valuation experts perform the valuations of financial assets required for financial reporting purposes. Discussions of valuation processes and results are held at least bi-annually, in line with the group's bi-annual reporting dates.

The valuation of the group's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (*level 1*)
- Input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices) (*level 2*)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (*level 3*).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Instruments classified as level 1 have been valued using published price quotations in an active market and include the following classes of financial assets and liabilities:

- Local and foreign listed equity securities
- Stock and loans to government and other public bodies, excluding stock and loans to other public bodies listed on the JSE interest rate market
- Local and foreign listed and unlisted quoted collective investment schemes (this also refers to the related collective investment scheme liabilities)
- Derivative financial instruments, excluding over-the-counter (OTC) derivatives.

The following are the methods and assumptions for determining the fair value when a valuation technique is used in respect of instruments classified as level 2. Refer to pages 229 to 233 for details of the instruments split into the different levels.

Instrument	Valuation basis	Main assumptions
<i>Equities and similar securities</i> – Listed, local and foreign	External valuations/quoted prices	Management applies judgement if an adjustment of quoted prices is required due to an inactive market
<i>Stock and loans to other public bodies</i> – Listed, local	Yield of benchmark (listed government) bond	Market input
– Listed, foreign	Discounted cash flow (DCF), benchmarked against similar instrument with the same issuer	Market input
– Unlisted	DCF, real interest rates, six-month JIBAR plus fixed spread or risk-free yield curve plus fixed spread	Market input and appropriate spread

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

51 VALUATION TECHNIQUES *continued*

Instrument	Valuation basis	Main assumptions
<i>Other debt securities</i>		
– Listed, local	DCF (BESA and ASSA bond perfect fit zero curve and other published real or nominal yields, uplifted with inflation), external valuations (linked notes), or published price quotations on JSE equity (preference shares) and interest rate market	Market input, uplifted with inflation
– Listed, foreign	External valuations that are based on published market input	Market input
– Unlisted	DCF (market-related nominal and real discount rates, bank and credit default swap curves, government bond yield curve plus a spread, three-month JIBAR plus fixed spread), external valuations, NAV of a hedge fund	Market input and appropriate spread
<i>Funds on deposit and other money market instruments</i>		
– Listed	DCF (market-related yields), issue price, or external valuations	Market input (based on quotes received from market participants and valuation agents)
– Unlisted	Deposit rates, or DCF (market-related yields)	Market input (based on quotes received from market participants and valuation agents)
<i>Unit-linked investments</i>	External valuations	Net asset value (assets and liabilities are carried at fair value)
<i>Derivative assets and liabilities</i>	Black-Scholes model/net present value of estimated floating costs less the performance of the underlying index over the contract term/DCF (using fixed contract rates and market-related variable rates adjusted for credit risk, credit default swap premiums, offset between strike price and market projected forward value, yield curve of similar market-traded instruments)	Market input, credit spreads, contract inputs
<i>Subordinated call notes (Liability)</i>	Price quotations on JSE interest rate market (which are based on yield of benchmark bond)	Market input
<i>Carry positions (Liability)</i>	DCF (in accordance with JSE interest rate market repo pricing methodology)	Market input, contract input
<i>Preference shares (Liability)</i>	Capital outstanding plus accrued dividends	Contract input

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

51 VALUATION TECHNIQUES *continued*

Information about fair value measurements using significant unobservable inputs (*level 3*)

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value	
Securities designated at fair value through income Equity securities	Unlisted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
		Mark to model	Adjusted price-earnings ratios	Could vary significantly due to the different risks associated with the investee	The higher the price-earnings multiple, the greater the fair value
Debt securities Stock and loans to government and other public bodies	Foreign listed	Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Unlisted	Discounted cash flow	Nominal interest rate	8.51% to 9.99% (2014: 8.51% to 9.99%)	The higher the nominal interest rate, the lower the fair value of the assets
Other debt instruments	Local listed	Mark to model	Fair value of underlying assets	Could vary significantly based on the assets held to match the notes	The higher the value of the underlying assets, the greater the fair value
		Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
	Unlisted	Discounted cash flow	Nominal interest rate	6.73% to 10.69% (2014: 5.80% to 10.04%); 7.38% to 13.09% (2014: 6.75% to 14.01%)	The higher the nominal interest rate, the lower the fair value of the assets
		Mark to model	Adjustments to market-related inputs as a result of inactivity	Could vary significantly due to the different risks associated with the investee	The greater the adjustments, the lower the fair value
		Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

51 VALUATION TECHNIQUES *continued*

Information about fair value measurements using significant unobservable inputs (*level 3*) *continued*

Financial assets	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Unit-linked investments				
Collective investment schemes				
Local unlisted or listed quoted	Net asset value	Fair value of respective assets and liabilities which are adjusted in line with market practice	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Foreign unlisted unquoted	Net asset value	Fair value of the respective assets and liabilities	Could vary significantly based on the assets and liabilities held by the investee	The higher the NAV, the greater the fair value
Other unit-linked investments				
Local unlisted unquoted	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
		Distributions or net cash flows since last valuation	Could vary significantly due to range of holdings	The fair value varies on distributions/net cash flows and period since last valuation
Financial liabilities	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Investment contracts designated at fair value through income	Asset and liability matching method	Asset value	Unit price	The asset value increase will increase the fair value of the liability
Financial liabilities designated at fair value through income				
Collective investment scheme liabilities	Adjusted net asset value method	Price per unit	Could vary significantly due to range of holdings	The higher the price per unit, the higher the fair value
Other borrowings	Discounted cash flow	Adjustments to discount rate	Dependent on credit risk and other risk factors	The lower the rate, the higher the fair value
	Mark to model	Adjusted embedded value	Could vary significantly based on the risks associated with the investee	The higher the embedded value, the greater the fair value

There were no significant changes in the valuation methods applied since the prior year, except for transfers between levels.

51 VALUATION TECHNIQUES *continued*

The following table provides an analysis of the assets at fair value into the various levels:

2015	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets				
Securities designated at fair value through income	232 804	126 361	6 562	365 727
Equity securities				
Local listed	79 806	37	–	79 843
Foreign listed	23 566	1 033	16	24 615
Unlisted	–	75	215	290
Debt securities				
Stock and loans to government and other public bodies				
Local listed	29 009	10 393	–	39 402
Foreign listed	596	1 312	24	1 932
Unlisted	–	2 840	81	2 921
Other debt instruments				
Local listed	215	25 621	114	25 950
Foreign listed	91	471	2	564
Unlisted	16	29 817	3 574	33 407
Funds on deposit and other money market instruments	–	24 470	3	24 473
Unit-linked investments				
Collective investment schemes ¹				
Local unlisted or listed quoted	78 158	360	61	78 579
Foreign unlisted or listed quoted	20 358	9 667	2	30 027
Foreign unlisted unquoted	–	470	433	903
Other unit-linked investments				
Local unlisted or listed quoted	984	8 311	1	9 296
Local unlisted unquoted	–	10 222	2 019	12 241
Foreign unlisted unquoted	–	1 262	17	1 279
Foreign unlisted or listed quoted	5	–	–	5
Investments in associates designated at fair value through income ¹	12 280	–	82	12 362
Derivative financial instruments	109	1 924	–	2 033
Held for trading	109	1 918	–	2 027
Held for hedging purposes	–	6	–	6
Available-for-sale	190	14	4	208
Equity securities				
Local listed	12	–	–	12
Foreign listed	147	–	–	147
Unlisted	31	1	4	36
Unit-linked investments				
Local unlisted or listed quoted	–	13	–	13
Non-financial assets				
Owner-occupied properties	–	–	3 030	3 030
Investment properties	–	–	7 212	7 212
	245 383	128 299	16 890	390 572

¹ Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price. ABIL retention funds have been classified as level 3.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

51 VALUATION TECHNIQUES *continued*

Restated 2014	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets				
Securities designated at fair value through income	221 835	106 619	6 542	334 996
Equity securities				
Local listed	78 237	24	–	78 261
Foreign listed	20 878	792	2	21 672
Unlisted	–	129	728	857
Debt securities				
Stock and loans to government and other public bodies				
Local listed ¹	23 466	7 048	–	30 514
Foreign listed	424	1 258	24	1 706
Unlisted	6	3 156	70	3 232
Other debt instruments				
Local listed	20	23 590	74	23 684
Foreign listed	47	440	4	491
Unlisted	5	26 357	2 799	29 161
Funds on deposit and other money market instruments	–	24 941	–	24 941
Unit-linked investments				
Collective investment schemes ²				
Local unlisted or listed quoted	70 588	136	–	70 724
Foreign unlisted or listed quoted	25 583	358	1	25 942
Foreign unlisted unquoted	–	550	675	1 225
Other unit-linked investments				
Local unlisted or listed quoted	2 565	6 374	2	8 941
Local unlisted unquoted	–	10 174	2 159	12 333
Foreign unlisted unquoted	–	1 292	4	1 296
Foreign unlisted or listed quoted	16	–	–	16
Investments in associates at fair value through income ²	11 900	–	–	11 900
Derivative financial instruments	71	2 291	–	2 362
Held for trading	71	2 276	–	2 347
Held for hedging purposes	–	15	–	15
Available-for-sale	121	4	4	129
Equity securities				
Local listed	3	–	–	3
Foreign listed	87	–	–	87
Unlisted	–	–	4	4
Debt securities				
Foreign listed	31	–	–	31
Unit-linked investments				
Local unlisted or listed quoted	–	4	–	4
Non-financial assets				
Owner-occupied properties	–	–	1 714	1 714
Investment properties	–	–	7 675	7 675
Non-current assets held for sale	17	–	–	17
	233 944	108 914	15 935	358 793

¹ R626 million of listed government stock was transferred from level 2 to level 1 assets during the June 2014 year in line with classification policy. The timing of the transfers are deemed to have occurred at the beginning of the year.

² Collective investment schemes and Investments in associates designated at fair value through income are classified as level 1 when there is an active market of transactions between investors and collective investment schemes based on a published price.

The following table provides a reconciliation of the fair value of the level 3 assets:

	Financial instruments				Non-financial instruments			Total Rm
	Designated at fair value through income				Available-for-sale			
	Equity securities Rm	Debt securities ¹ Rm	Unit-linked investments Rm	Investments in associates Unit-linked investments Rm	Equity securities Rm	Owner-occupied properties Rm	Investment properties Rm	
2015								
Opening balance	730	2 971	2 841	—	4	1 714	7 675	15 935
Business combinations	—	—	—	—	—	19	116	135
Transfer from/(to) other asset classes	—	—	—	—	—	1 229	(1 229)	—
Total gains/(losses) in net realised and fair value gains in the income statement	338	25	(80)	—	—	—	1	284
Realised gains/(losses)	(32)	(237)	206	2	—	18	382	339
Unrealised (losses)/gains	—	—	—	—	—	122	—	122
Total gains in other comprehensive income	—	—	—	—	—	(61)	—	(61)
Depreciation on owner-occupied properties	—	—	—	—	—	—	—	—
Accrued interest in investment income in the income statement	—	25	—	—	—	—	—	25
Purchases	187	885	784	1	—	9	370	2 236
Sales	(233)	(756)	(1 102)	—	—	(20)	(103)	(2 214)
Settlements	(759)	(133)	(183)	—	—	—	—	(1 075)
Transfers into level 3 ²	—	1 295	67	79	—	—	—	1 441
Transfers out of level 3	—	(277)	—	—	—	—	—	(277)
Closing balance	231	3 798	2 533	82	4	3 030	7 212	16 890

¹ Includes funds on deposit and other money market instruments.

² The group's holdings in the various debt and equity instruments of ABIL, and its various subsidiaries, were transferred from levels 1 and 2 to 3 on 1 January 2015, subsequent to the placing into curatorship of the African Bank Group and the suspension of these securities by the JSE Ltd.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

51 VALUATION TECHNIQUES *continued*

2014	Designated at fair value through income				Financial instruments			Non-financial instruments			Total Rm
	Investments in associates				Available-for-sale			Owner-occupied properties			
	Equity securities Rm	Debt securities Rm	Unit-linked investments Rm	Unit-linked investments Rm	Equity securities Rm	Debt securities Rm	Equity securities Rm	Investment properties Rm	Investment properties Rm		
Opening balance	820	4 846	2 571	41	24	374	1 488	6 433	16 597		
Transfer from/(to) other asset classes	-	-	41	(41)	-	-	235	(235)	-		
Total gains/(losses) in net realised and fair value gains in the income statement	2	(5)	(51)	-	-	-	(3)	-	(57)		
Realised gains/(losses)	177	552	259	-	-	-	27	541	1 556		
Unrealised gains	-	-	-	-	-	-	7	-	7		
Total gains in other comprehensive income	-	-	-	-	-	-	(44)	-	(44)		
Depreciation on owner-occupied properties	-	-	-	-	-	-	-	-	-		
Accrued interest in investment income in the income statement	-	62	14	-	-	-	-	-	76		
Purchases	254	426	264	-	-	-	4	1 000	1 948		
Sales	(523)	(377)	(188)	-	(20)	(374)	-	(64)	(1 546)		
Settlements	-	(1 667)	(53)	-	-	-	-	-	(1 720)		
Transfers into level 3	-	311	1	-	-	-	-	-	312		
Transfers out of level 3 ¹	-	(1 177)	(17)	-	-	-	-	-	(1 194)		
Closing balance	730	2 971	2 841	-	4	-	1 714	7 675	15 935		

¹ The reason for the transfer out of level 3 in the prior year is mainly as a result of obtaining access to more observable data and refining the valuation technique. The timing of the transfers are deemed to have occurred at the beginning of the year.

The amount of total gains or losses for the year included in net realised and fair value gains in the income statement for assets held at the end of the year is R339 million (2014: R1 556 million) for the group.

51 VALUATION TECHNIQUES *continued*

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions:

	Financial instruments				Available-for-sale	Total Rm
	Designated at fair value through income			Investments in associates		
	Equity securities Rm	Debt securities ¹ Rm	Unit-linked investments Rm	Unit-linked investments Rm	Equity securities Rm	
2015						
Carrying value	231	3 798	2 533	82	4	6 648
Assumption change	10% increase/(decrease) in markets	1% increase/(decrease) in interest rates	10% increase/(decrease) in unit price	Not sensitive	Not sensitive	
Effect of increase in assumption	23	6	253	N/A	N/A	
Effect of decrease in assumption	(23)	1	(253)	N/A	N/A	
2014						
Carrying value	730	2 971	2 841	–	4	6 546
Assumption change	10% increase/(decrease) in markets	1% increase/(decrease) in interest rates	10% increase/(decrease) in unit price	N/A	Not sensitive	
Effect of increase in assumption	73	(130)	284	N/A	N/A	
Effect of decrease in assumption	(73)	123	(284)	N/A	N/A	

¹ June 2015 includes funds on deposit and other money market instruments.

² For the sensitivities relating to Owner-occupied properties and Investment properties, please refer to note 2 and note 4 respectively.

The following liabilities are carried at fair value and have been split into a fair value hierarchy:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2015				
Investment contracts designated at fair value through income	965	219 247	144	220 356
Financial liabilities designated at fair value through income	24 322	14 289	1 109	39 720
Collective investment scheme liabilities	24 322	583	964	25 869
Subordinated call notes	–	3 320	–	3 320
Carry positions	–	9 370	–	9 370
Preference shares	–	1 016	–	1 016
Other borrowings	–	–	145	145
Derivative financial instruments	163	1 948	–	2 111
Held for trading	163	1 948	–	2 111
	25 450	235 484	1 253	262 187
2014				
Investment contracts designated at fair value through income	1 658	199 840	153	201 651
Financial liabilities designated at fair value through income	21 747	8 956	98	30 801
Collective investment scheme liabilities	21 747	526	40	22 313
Subordinated call notes	–	2 573	–	2 573
Carry positions	–	4 851	–	4 851
Preference shares	–	1 001	–	1 001
Other borrowings	–	5	58	63
Derivative financial instruments	176	1 677	–	1 853
Held for trading	176	1 677	–	1 853
	23 581	210 473	251	234 305

¹ There were no significant transfers between level 1 and level 2 liabilities for both the current and prior year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

51 VALUATION TECHNIQUES *continued*

A reconciliation of the level 3 liabilities has been provided below:

2015	Financial liabilities designated at fair value through income			Total Rm
	Investment contracts designated at fair value through income Rm	Collective investment scheme liabilities Rm	Other borrowings Rm	
Opening balance	153	40	58	251
Business combinations (refer to note 38)	–	–	4	4
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	1	189	–	190
Unrealised losses/(gains)	4	(11)	–	(7)
Issues	–	53	117	170
Settlements	–	(98)	(34)	(132)
Contract holder movements				
Benefits paid	(19)	–	–	(19)
Investment return	5	–	–	5
Transfers into level 3 ¹	–	791	–	791
Closing balance	144	964	145	1 253

¹ The transfer into level 3 represents the ABIL retention funds consolidated as at 30 June 2015.

2014				
Opening balance	663	–	–	663
Business combinations (refer to note 38)	–	–	4	4
Total losses/(gains) in net realised and fair value gains in the income statement				
Realised losses	5	–	–	5
Unrealised losses/(gains)	1	7	(3)	5
Issues	–	33	57	90
Settlements	(498)	–	–	(498)
Contract holder movements				
Benefits paid	(28)	–	–	(28)
Investment return	10	–	–	10
Closing balance	153	40	58	251

Sensitivity: Increasing/decreasing the investment return by 10% would decrease/increase the carrying value of level 3 financial instrument liabilities by R117 million and R118 million (2014: R30 million and R30 million), respectively.

51 VALUATION TECHNIQUES *continued*

The following table provides an analysis of the fair value of financial assets not carried at fair value in the statement of financial position:

	2015		2014	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Assets				
Held-to-maturity financial instruments	73	73	100	100
Loans and receivables	7 652	7 666	5 586	5 636
Loans	2 359	2 373	2 370	2 420
Accounts receivable	2 790	2 790	2 444	2 444
Unsettled trades	2 503	2 503	772	772
Cash and cash equivalents	26 174	26 174	28 875	28 875
	33 899	33 913	34 561	34 611

Calculation of fair value

- For accounts receivable, cash and cash equivalents and receivables arising from investment contracts, the carrying value approximates fair value due to their short-term nature.
- The fair value of loans to empowerment partners of R328 million (2014: R346 million) is the discounted amount of the estimated future cash flows expected to be received. The expected cash flows are discounted at 12% (2014: 12%).
- For policy loans, the fair value of R1 258 million (2014: R1 451 million) is the discounted amount of the estimated future cash flows to be received, based on monthly repayments of between 15 and 30 months. The expected cash flows are discounted using a rate of 8.6% (2014: 8.5%).
- For the remainder of the loans, the carrying value approximates fair value due to their short-term nature.
- The loans and accounts receivable are classified as level 2.

The following table provides an analysis of the fair value of financial liabilities not carried at fair value in the statement of financial position:

	2015		2014	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Liabilities				
Investment contracts with DPF	26 134	26 134	25 405	25 405
Amortised cost	1 092	1 772	1 463	2 053
Cumulative redeemable preference shares	293	973	313	903
Subordinated redeemable debt	–	–	511	511
Finance lease liabilities	2	2	2	2
Other	797	797	637	637
Other payables	11 835	11 828	8 548	8 516
Payables arising from investment contracts	1 451	1 451	1 025	1 025
Other payables	10 384	10 377	7 523	7 491
	39 061	39 734	35 416	35 974

Calculation of fair value

- The value of investment contracts with DPF is the retrospective accumulation of the fair value of the underlying assets, which is a reasonable approximation to the fair value of this financial liability.
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2015, the expected cash flows were discounted at a current market rate of 11% (2014: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. (*level 2*)
- The fair value of subordinated redeemable debt is determined using published price quotations in an active market (JSE interest rate market). The debt was redeemed during the current year. (*level 2*)
- For other liabilities at amortised cost, payables arising from investment contracts and other payables, the carrying value approximates fair value due to their short-term nature.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

52 JUNE 2014 RECLASSIFICATIONS

The group's June 2014 results have been restated for the following reclassifications:

- Certain income and expenses of R334 million in the Shareholder Capital segment have been set off to better reflect the information used by management.
- Promotor cell administration expenses of R88 million, previously included in cell captive business expenses in the segment report, was reallocated to administration expenses in line with the way in which the chief operating decision-maker, being the MMI executive committee, monitors and evaluates the performance of the Momentum Employee Benefits segment.

The above reclassifications had the following impact:

	As previously reported Rm	Reclassi- fication Rm	Restated 2014 Rm
Segmental report			
Momentum Employee Benefits			
Administration expenses	1 338	88	1 426
Cell captive expenses	459	(88)	371
Shareholder capital			
Administration expenses	531	(334)	197
Reconciling items			
Administration expenses	359	334	693

- Reinsurance contract liabilities of R202 million, previously shown with reinsurance contract assets, have been grossed up and disclosed separately. This restatement was deemed necessary in order to improve comparability between periods.

The above reclassification had the following impact:

Statement of financial position			
Reinsurance contract assets	2 576	202	2 778
Reinsurance contract liabilities	–	202	202

Also refer to disclosure in notes 8, 20 and 48.

- The financial asset disclosure was refined in the current year to better align to the group's asset accounting policies, resulting in R4.9 billion of funds on deposit reclassified to debt securities.

The above reclassification had the following impact:

Notes to the financial statements			
Securities designated at fair value through income			
Debt securities – other debt instruments – unlisted	24 224	4 937	29 161
Funds on deposit and other money market instruments	29 878	(4 937)	24 941

The assets that were reclassified are all level 2 and have a credit rating of AA.

Interest rate risk			
Debt securities			
Cash flow interest rate risk	29 136	2 609	31 745
Fair value interest rate risk	51 335	2 328	53 663
Funds on deposit and other money market instruments			
Cash flow interest rate risk	25 949	(4 937)	21 012

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STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
ASSETS			
Equipment ¹	–	–	2
Interest in subsidiary companies	21 137	19 969	3
Financial instruments	1 205	1 887	
Designated at fair value through income	–	1 329	4
Loans and receivables	1 205	558	5
Current income tax asset	–	1	12.1
Cash and cash equivalents	69	260	6
Total assets	22 411	22 117	
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital and share premium	17 563	17 543	7
Other components of equity	55	55	
Retained earnings	4 414	3 996	
Total equity	22 032	21 594	
LIABILITIES			
Financial instruments	293	313	
Amortised cost	293	313	8
Employee benefit obligations	23	28	10
Other payables	62	182	11
Current income tax liability	1	–	12.1
Total liabilities	379	523	
Total equity and liabilities	22 411	22 117	

¹ Amount in prior year rounds down to less than R1 million.

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Investment income	3 811	3 388	13
Net realised and fair value gains	35	299	14
Net income	3 846	3 687	
Impairment (reversals)/expenses	(28)	162	15
Employee benefit expenses	53	73	16
Other expenses	232	211	17
Expenses	257	446	
Results of operations	3 589	3 241	
Finance costs	(44)	(45)	18
Profit before tax	3 545	3 196	
Income tax	(20)	(7)	12.2
Earnings for year attributable to owners of the company	3 525	3 189	

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
Earnings for year	3 525	3 189
Other comprehensive income for year, net of tax	–	–
Total comprehensive income for year attributable to owners of the company	3 525	3 189

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Share capital Rm	Retained earnings Rm	Other components of equity Rm	Total attributable to owners of the company Rm	Notes
Balance at 1 July 2013	17 543	2 895	55	20 493	
Total comprehensive income	–	3 189	–	3 189	
Dividend paid	–	(2 088)	–	(2 088)	
Balance at 1 July 2014	17 543	3 996	55	21 594	
Total comprehensive income	–	3 525	–	3 525	
Dividend paid	–	(3 107)	–	(3 107)	
Conversion of preference shares	20	–	–	20	7
Balance at 30 June 2015	17 563	4 414	55	22 032	

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm	Notes
Cash flow from operating activities			
Cash utilised in operations	(249)	(284)	19.1
Dividends received	3 723	3 314	13
Interest received	85	74	13
Income tax paid	(18)	(6)	19.2
Interest paid	(44)	(45)	19.3
Net cash inflow from operating activities	3 497	3 053	
Cash flow from investing activities			
Disposal/(Purchase) of assets designated at fair value through income	1 364	(45)	
Investments in subsidiary companies	(110)	(24)	
Loans to related parties	(1 835)	(656)	
Net cash outflow from investing activities	(581)	(725)	
Cash flow from financing activities			
Dividends paid	(3 107)	(2 088)	
Net cash outflow from financing activities	(3 107)	(2 088)	
Net cash flow	(191)	240	
Cash and cash equivalents at beginning	260	20	
Cash and cash equivalents at end	69	260	6

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The basis of preparation and accounting policies of the company are the same as that of the group, as set out in the group financial statements. These financial statements should be read in conjunction with the group financial statements.

	2015 Rm	2014 Rm
2 EQUIPMENT		
Cost	1	1
Accumulated depreciation	(1)	(1)
Carrying amount ¹	–	–
¹ Amount in prior year rounds down to less than R1 million.		
Equipment comprises furniture and fittings and computer equipment.		
3 INTEREST IN SUBSIDIARY COMPANIES		
Cost less impairment	19 659	19 549
Loans to subsidiary companies (Annexure A)	1 478	420
	21 137	19 969
Opening balance	19 969	19 923
Cost of interest in subsidiaries acquired	110	24
Plus: reversal of impairment charge	136	–
Less: impairment charge	–	(8)
Movements in loans to subsidiary companies	922	30
Closing balance	21 137	19 969

General

Details of interests in subsidiary companies are disclosed in Annexure A.

Loans to subsidiary companies

The loans to subsidiary companies are not of a commercial nature and are therefore interest-free, with no fixed repayment terms. These loans are intended to provide the subsidiaries with a long-term source of additional capital. The company can recall these loans when cash is required.

Interest in subsidiaries acquired

Metropolitan International Holdings (Pty) Ltd (MIH): The company acquired additional shares in MIH for R70 million during the current year (R12 million during the prior year).

MMI Strategic Investments (Pty) Ltd (MMISI): In the prior year the MMI Group Ltd shares in MMISI were transferred to MMI Holdings Ltd at a cost of R12 million. The company acquired additional shares in MMISI for R40 million during the current year.

Impairment

The company reversed the impairment of R136 million (2014: impaired R136 million) of the capitalised loan to MMI Finance Company (Pty) Ltd.

The company impaired R8 million of the investment in its subsidiary Momentum Trust Ltd in the prior year.

	2015 Rm	2014 Rm
4 DESIGNATED AT FAIR VALUE THROUGH INCOME		
Equity securities	–	1 329

- Assets designated at fair value through income for equity securities were all open-ended. This category included financial instruments with no fixed maturity date.
- The criteria for designation of assets at fair value through income are disclosed in the group financial statements under the financial instruments accounting policy.
- A schedule of equity securities (for the prior year) is available for inspection at the company's registered office.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
5 LOANS AND RECEIVABLES		
Accounts receivable ¹	2	–
Loans to related parties	1 202	557
Loans to subsidiary companies (Annexure A)	982	208
Less: provision for impairment on loans to subsidiary companies	(271)	(163)
Loans to associates	11	11
Less: provision for impairment on loans to associates	(3)	(3)
Preference shares	64	57
Empowerment partners	419	447
Strategic unsecured loans	1	1
	1 205	558
Current	1 147	183
Non-current	58	375
	1 205	558
¹ Amount in prior year rounds down to less than R1 million.		
Reconciliation of provision for impairment		
Opening balance	166	148
Additional provisions for current year (refer to note 15)	108	18
Closing balance	274	166

Terms and conditions of material loans

- Loans to subsidiary companies are generally interest-free, unsecured and have no repayment terms.
- The loans to associates include a loan to C Shell 448 (Pty) Ltd for R10 million and is unsecured, has no repayment terms and interest is as agreed between the shareholders, being zero percent for both periods.
- Preference shares:
 - MMI Holdings Ltd acquired preference shares in Eris Property Fund (Pty) Ltd for R48 million in the 2013 financial year. These preference shares are subject to dividends (at risk-free rate plus 0.5%) disclosed as part of interest income. Interest for the period is R7 million (2014: R6 million). The preference shares have a term of five years from issue date.
- Loans to empowerment partners consist of:
 - a loan of R33 million to Business Venture Investments No 1796 (Pty) Ltd (BVI), a wholly-owned subsidiary of Kagiso Trust Holdings. The loan is interest-free and repayable on written notice by MMI Holdings Ltd or BVI at anytime from 26 February 2016.
 - an unsecured loan of R83 million (2014: R91 million) to a subsidiary of Kagiso Tiso Holdings (Pty) Ltd (KTH), with a repayment date of between five and 10 years from date of issue (January 2005), on which interest is charged at 80% of the prime interest rate.
 - the loans to empowerment partners include R303 million (2014: R323 million) at 30 June 2015, which relates to A3 preference shares acquired on 2 December 2011 in Off the Shelf Investments 108 (Pty) Ltd (a KTH subsidiary) for R316 million. Given the financial substance of the KTH subsidiary and the commercial terms attached to the funding arrangement, there is sufficient security in the company that the group does not carry and has not carried the risks and rewards of the shares that are funded by the loan. The loan is therefore not accounted for as an option under IFRS 2 – Share-based payments – and is recognised as a receivable carried at amortised cost. Interest is charged at 88% of the prime interest rate of South Africa and the preference shares have a repayment date of 29 June 2017.

Impairment

The loans to subsidiary companies were impaired by R108 million (2014: R18 million) in the current year.

	2015 Rm	2014 Rm
6 CASH AND CASH EQUIVALENTS		
Bank and other cash balances	69	260
	69	260

7 SHARE CAPITAL AND SHARE PREMIUM
Authorised share capital of MMI Holdings Ltd
 2 billion ordinary shares of 0.0001 cents each

129 million (76 million A1, 13 million A2 and 40 million A3) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each.

Issued share capital of MMI Holdings Ltd
 1.6 billion ordinary shares of 0.0001 cents each

32 million A3 variable rate cumulative redeemable convertible preference shares of 0.0001 cents each in issue.

Number of shares in issue (million)	2015	2014
Opening balance	1 570	1 570
Conversion of preference shares	2	–
Closing balance	1 572	1 570

Share capital and share premium	Rm	Rm
Opening balance	17 543	17 543
Conversion of preference shares	20	–
Closing balance	17 563	17 543

On 13 November 2014 and 31 March 2015, 1 095 861 and 1 051 194 A3 preference shares, respectively, were converted into ordinary shares.

Further details of the preference shares are disclosed in note 19.1 of the group financial statements.

	2015 Rm	2014 Rm
8 FINANCIAL LIABILITIES AT AMORTISED COST		
Cumulative redeemable convertible preference shares	293	313
Current	11	11
Non-current	282	302
	293	313

Details of the cumulative redeemable convertible preference shares are disclosed in note 19.1 of the group financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
9 DEFERRED INCOME TAX		
Deferred tax asset	3	145
Tax losses and credits	3	145
Deferred tax liability	(3)	(145)
Revaluations	(3)	(145)
	–	–
<i>Movement in deferred tax</i>		
Balance at beginning	–	–
Charge to income statement	–	–
Revaluations	(148)	(55)
Tax losses and credits	148	55
Balance at end	–	–
Creation of deferred tax asset		
Tax losses have been provided for as a deferred tax asset where, at year-end, there was certainty as to their recoverability.		
A deferred tax asset of R14 million (2014: R21 million), relating to a capital loss, has not been recognised due to the uncertainty of recoverability.		
10 EMPLOYEE BENEFIT OBLIGATIONS		
Share scheme obligations	15	27
Leave pay	1	1
Staff and management bonuses	7	–
	23	28
Current	16	17
Non-current	7	11
	23	28
Cash-settled arrangement – long-term retention scheme		
Balance at beginning	27	26
Additional provisions	–	31
Unutilised amounts reversed	(1)	–
Benefits paid	(11)	(30)
Balance at end	15	27

10 EMPLOYEE BENEFIT OBLIGATIONS *continued*

MMI share schemes

MMI Long-term Retention Award Scheme (MMI LTRAS)

The purpose of this scheme was to attract, retain, motivate and reward eligible employees who are able to influence the performance of the group and to give such employees an incentive to advance the company's interests for the ultimate benefit of all its stakeholders.

The MMI LTRAS was a phantom scheme in that a participant was not entitled to MMI Holdings Ltd shares but rather to a cash sum from the employer, calculated on the basis of the number of participation units which vested at the fair market price of an MMI share (average of 20 trading days before the vesting date).

The award date was 1 January 2011 and the vesting date was either 1 December 2013 or 1 December 2014.

The cash sum was only paid out if the employee remained in the employ of the company/group for the full vesting period and if certain performance criteria (as determined by the board from time to time) had been met.

MMI Long-term Incentive Plan (MMI LTIP)

Certain key senior staff members were identified as vital to the future success of the company/group, and its ability to compete in an ever-changing environment. The purpose of the MMI LTIP is to incentivise and retain these key senior staff members. The MMI LTIP comprises two separate long-term incentives, the first being an award of performance units, and the second being a grant of retention units.

The performance units have performance criteria based on minimum hurdles related to the return on embedded value of the group. The units will therefore vest after a period of three years, and the group's performance will be averaged over the same period to determine whether the criteria have been met.

The retention units have no imposed performance criteria and therefore vest on award date, subject to the employee maintaining satisfactory performance during the period between the award date and the settlement date. When the retention units and performance units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMI share (average of 20 trading days before the settlement date).

	2015 MMI LTIP '000	2014 MMI LTIP '000	2015 MMI LTRAS '000	2014 MMI LTRAS '000
Number of units outstanding				
At beginning of year	1 843	1 070	–	916
Units granted during year	347	567	–	–
Units transferred (to)/from other companies	(108)	206	–	244
Units exercised/released during year	(299)	–	–	(1 160)
Units cancelled/lapsed during year	(859)	–	–	–
At end of year	924	1 843	–	–
Performance units	650	1 440		
Retention units	274	403		
	924	1 843		
Inputs used in valuation of the MMI share schemes				
Current vesting rate	100%	100%		
Share price at reporting date	R30.15	R26.18		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
11 OTHER PAYABLES		
Other payables	62	22
Loans from subsidiary companies (Annexure A)	–	160
	62	182
Current	62	182
Terms and conditions of loans		
The loans from subsidiary companies were interest-free, unsecured and payable on demand.		
12 INCOME TAX		
12.1 Current income tax liability/(asset)		
<i>Movement in liability/(asset)</i>		
Balance at beginning	(1)	(2)
Charged to income statement	20	7
Paid during year	(18)	(6)
Balance at end	1	(1)
12.2 Income tax expense		
Current taxation		
Current year		
South African normal tax	5	3
Foreign countries – withholding tax	15	4
	20	7
	2015	2014
	%	%
Tax rate reconciliation		
Tax calculated at standard rate of South African tax on earnings	28.0	28.0
Foreign tax	0.4	0.1
Non-taxable items	(30.3)	(27.9)
Non-deductible expenses	2.4	–
Effective rate	0.5	0.2
	2015	2014
	Rm	Rm
13 INVESTMENT INCOME		
Designated at fair value through income		
Dividends received – listed equities	35	36
Dividends received – subsidiary companies	3 688	3 278
Interest income	85	74
Designated at fair value through income	–	1
Loans and receivables	69	63
Cash and cash equivalents	16	10
Other income	3	–
	3 811	3 388
14 NET REALISED AND FAIR VALUE GAINS		
Designated at fair value through income	35	301
Loss on sale of shares in subsidiary company	–	(2)
	35	299

	2015 Rm	2014 Rm
15 IMPAIRMENT (REVERSALS)/EXPENSES		
Impairment of investments in subsidiary companies	–	8
Impairment of loans to subsidiary companies	108	18
Impairment of loans capitalised to subsidiary companies	–	136
Reversal of impairment of loans capitalised to subsidiary companies	(136)	–
	(28)	162
16 EMPLOYEE BENEFIT EXPENSES		
Salaries	52	38
Defined contribution retirement fund	1	2
Share-based payment expenses		
Cash-settled	(1)	31
Training costs	1	2
	53	73
Executive directors' emoluments included above.	38	39
Details of the staff share schemes are disclosed in note 21 of the group financial statements.		
17 OTHER EXPENSES		
Asset management fees	3	3
Auditors' remuneration ¹	–	–
Consulting fees	3	9
Management fees	169	143
Marketing costs	3	3
Office costs	32	19
Other expenses	17	22
Company insurance	1	6
Other indirect taxes	3	3
Rental expenses	–	1
Travel expenses	1	2
	232	211
Non-executive directors' emoluments included in other expenses above.	12	14

¹ Amount rounds down to less than R1 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Rm	2014 Rm
18 FINANCE COSTS		
Interest expense on liabilities at amortised cost		
Redeemable preference shares	44	45
	44	45
19 CASH FLOW FROM OPERATING ACTIVITIES		
19.1 Cash utilised in operations		
Profit before tax	3 545	3 196
Adjusted for		
Dividend received	(3 723)	(3 314)
Interest received	(85)	(74)
Finance costs	44	45
Impairment of loans to and investments in subsidiary companies	(28)	162
Net realised and fair value gains	(35)	(301)
Share-based payment expenses	(1)	31
Changes in operating assets and liabilities		
Loans and receivables	(2)	1
Employee benefit obligations	(4)	(31)
Other operating liabilities	40	1
	(249)	(284)
19.2 Income tax paid		
Due at beginning	1	2
Charged and provided	(20)	(7)
Due at end	1	(1)
	(18)	(6)
19.3 Interest paid		
Redeemable preference shares		
Paid 30 September	(22)	(23)
Paid 31 March	(22)	(22)
	(44)	(45)

20 RELATED PARTY TRANSACTIONS

20.1 Holding company

Shares in MMI Holdings Ltd, the ultimate holding company in the group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 261 of the integrated report. Significant subsidiary companies are listed in Annexure A. Other related parties include Kagiso Tiso Holdings (Pty) Ltd, Rand Merchant Insurance Holdings Ltd (by virtue of its shareholding of 24.5% in MMI Holdings Ltd), directors, key personnel and close members of their families. Refer to note 41.1 in the group financial statements for more details.

20.2 Transactions with directors

Remuneration is paid in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. The aggregate remuneration, shares held and transactions of the group executive committee members are disclosed in note 41.2 of the group financial statements.

20.3 Transactions with related parties

Loans are advanced between MMI Holdings Ltd and its subsidiaries and associates as funding. The loans to subsidiary companies included in loans in the statement of financial position are detailed in Annexure A. The loans to associates were included in note 5.

20 RELATED PARTY TRANSACTIONS *continued*

20.3 Transactions with related parties *continued*

Details of other transactions with subsidiaries included in the financial statements are listed below.

	2015 Rm	2014 Rm
Administrative charges – MMI Group Ltd	166	140
Asset management fee expense – Momentum Asset Management (Pty) Ltd	3	3
Rental expenses – MMI Group Ltd	–	1

Refer to note 41 of the group financial statements for further details on related party transactions with directors and key management personnel.

21 CONTINGENT LIABILITIES

The company is party to legal proceedings in the ordinary course of business and appropriate provisions are made when losses are expected to materialise.

22 CAPITAL COMMITMENTS

The company has given a guarantee in favour of Rand Merchant Bank (RMB) that MMISI will repay its obligations due to RMB.

23 RISK MANAGEMENT POLICIES

Details of financial instruments and risk management strategies are disclosed in note 43 of the group financial statements. The more important financial risks to which the company is exposed are credit risk, equity risk and interest rate risk.

The company's capital is managed with that of the group. The capital management of the group is discussed in note 44 of the group financial statements.

23.1 The following table reconciles the assets and liabilities in the statement of financial position to the classes and portfolios of assets managed in terms of mandates.

	2015 Rm	2014 Rm
Assets		
Designated as at fair value through income	–	1 329
Equity securities		
Local listed	–	1 329
Loans and receivables	1 205	558
Loans	1 203	558
Accounts receivable ¹	2	–
Cash and cash equivalents	69	260
Other assets	21 137	19 970
Total assets	22 411	22 117
Liabilities		
Amortised cost	293	313
Cumulative redeemable preference shares	293	313
Other payables	62	182
Loans from subsidiary companies	–	160
Other payables	62	22
Other liabilities	24	28
Total liabilities	379	523

¹ Amount in prior year rounds down to less than R1 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

23 RISK MANAGEMENT POLICIES *continued*

23.2 The following table provides an analysis of the fair value of financial assets and liabilities not carried at fair value in the statement of financial position.

	2015		2014	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Assets				
Loans and receivables	1 205	1 205	558	549
Accounts receivable ¹	2	2	–	–
Loans to subsidiary companies	711	711	45	45
Loans to associates	8	8	8	8
Empowerment loans	419	419	447	438
Preference shares	64	64	57	57
Strategic loans	1	1	1	1
Cash and cash equivalents	69	69	260	260
	1 274	1 274	818	809
Liabilities				
Cumulative redeemable preference shares	293	972	313	903
Other payables	62	62	182	182
Loans from subsidiary companies	–	–	160	160
Other payables	62	62	22	22
	355	1 034	495	1 085

¹ Amount in prior year rounds down to less than R1 million.

- For cash and cash equivalents, accounts receivable and other payables, the carrying value approximates fair value due to their short-term nature.
- For loans to subsidiary companies and the loans to associates there are no fixed terms of repayment. When the company is in a position to repay the loan, it will be payable on demand. The carrying value therefore approximates fair value.
- The carrying value of loans to empowerment partners and strategic loans approximates fair value. In the prior year the fair value was the discounted amount of the estimated future cash flows expected to be received. The expected future cash flows were discounted at 12%.
- The estimated fair value of preference shares is based on the market value of the listed ordinary shares, adjusted for the differences in the estimated dividend cash flows between the valuation and conversion dates. As the preference shares are already convertible, the market value is deemed to be the minimum value. In 2015, the expected cash flows were discounted at a current market rate of 11% (2014: 11%). The conversion of the preference shares is at the option of the preference shareholder; the date of conversion was estimated based on the most beneficial dividend stream to the holder. (*level 2*)
- For loans from subsidiary companies, the carrying value approximates fair value as they are payable on demand.

23.3 Valuation techniques

The company's in-house valuation experts perform the valuations of financial assets required for financial reporting purposes. Discussions of valuation processes and results are held at least bi-annually, in line with the company's bi-annual reporting dates.

The valuation of the company's assets and liabilities has been classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (*level 1*);
- input other than quoted prices included within *level 1* that are observable for the asset or liability, either directly (ie prices) or indirectly (ie derived from prices) (*level 2*); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (*level 3*).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable input that requires significant adjustment based on unobservable input, that measurement is a *level 3* measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

23 RISK MANAGEMENT POLICIES *continued*

23.3 Valuation techniques *continued*

Instruments classified as level 1 have been valued using published price quotations in an active market. Local listed equity securities are classified as level 1 instruments.

23.4 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The credit risk of the company is managed similarly to that of the group as disclosed in note 50 in the group financial statements.

The company's maximum exposure to credit risk is through the following classes of assets:

	2015 Rm	2014 Rm
Loans and receivables	1 205	558
Loans	1 203	558
Accounts receivable ¹	2	–
Cash and cash equivalents	69	260
Total assets bearing credit risk	1 274	818

¹ Amount in prior year rounds down to less than R1 million.

Security and credit enhancements

- For cash and cash equivalents, the credit risk is managed through the group's credit risk exposure policy described in the group financial statements.
- Security held on loans is disclosed in note 5.

The assets in the table above are analysed in the table below using Fitch ratings, or the equivalent thereof when Fitch ratings are not available.

	2015 Rm	2014 Rm
Cash and cash equivalents	69	260
AA	69	260
Unrated		
Loans and receivables	1 205	558
Loans	1 203	558
Accounts receivable ¹	2	–
	1 274	818

¹ Amount in prior year rounds down to less than R1 million.

The loans to subsidiary companies were impaired by R108 million (2014: R18 million) in the current year.

23.5 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, arising from the possibility that the company could be required to pay its liabilities earlier than expected.

Liabilities at amortised cost

It is expected that the A3 preference shares will convert into ordinary shares and that there will therefore be no cash outflow on conversion; however, if the shares are not converted, an outflow at redemption value on the redemption date, 29 June 2017, is assumed. The company has a further obligation to pay preference share dividends. The cash flows for these dividends are those expected up to redemption date, even though the conversion of the preference shares is at the option of the preference shareholder.

Other payables

Other payables include loans from subsidiary companies which are payable on demand.

Management of liquidity risk

Equipment, interest in subsidiaries and certain loans to subsidiaries are less liquid assets and amount to R22 342 million, 99.7% of total assets (2014: R20 527 million, 92.8%).

The remainder of the assets – R69 million, 0.3% (2014: R1 590 million, 7.2%) – are seen to be liquid and relatively easy to realise.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2015

23 RISK MANAGEMENT POLICIES *continued*

23.5 Liquidity risk *continued*

Management of liquidity risk continued

The following table indicates the maturity analysis of the liabilities.

	Undiscounted cash flows			
	Carrying value Rm	Total Rm	0 to 1 year Rm	1 to 5 years Rm
2015				
Amortised cost				
Cumulative redeemable preference shares	293	378	43	335
Other payables	62	62	62	–
Other liabilities	24	24	17	7
Total liabilities	379	464	122	342
2014				
Amortised cost				
Cumulative redeemable preference shares	313	453	46	407
Other payables	182	182	182	–
Other liabilities	28	28	17	11
Total liabilities	523	663	245	418

23.6 Market risk

Introduction

- Market risk is the risk that the fair value on future cash flows of financial instruments will fluctuate as a result of changes in market prices.
- The key components of market risks are equity price risk, interest rate risk and currency risk.

Market risk governance

- Refer to note 49 in the group financial statements for the governance around market risk.

23.6.1 Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the marketplace.

Equities are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systemic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification, while systemic risk cannot.

Refer to note 49 of the group financial statements for how equity risk is managed by the group.

23.6.2 Interest rate risk

Interest rate risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in interest rates.

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the company's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

The company is exposed to floating interest rates that result in cash flow interest rate risk.

23 RISK MANAGEMENT POLICIES *continued*

23.6 Market risk *continued*

23.6.2 Interest rate risk *continued*

Instrument class and weighted average rate	2015 Rm	2014 Rm
Loans and receivables – empowerment partners Floating rate – weighted average rate 8.5% (2014: 7.3%)	419	447
Cash and cash equivalents Floating rate – weighted average rate 5% (2014: 5%)	69	260
	488	707

23.6.3 Sensitivity to market risks

The company's earnings and net asset value are exposed to market risks. The company has identified that changes in interest rates (2014: equity prices and interest rates) have the most significant effect on earnings and equity. The sensitivity to a change in equity prices by 10% and changes to interest rates by 100 basis points is discussed below.

In the prior year, management identified the risk of a sudden drop in equity market values as the most significant market risk. The equity portfolio was managed with consideration of the market conditions at any given time. If the market values of equity securities decreased by 10% on 30 June 2014, the approximate impact would have been a reduction of R133 million on earnings before tax. An equal and opposite impact would have occurred if the market values increase by 10%.

The company is exposed to floating interest rate changes only. Cash requirements fluctuate during the course of the year and are therefore of a short-term nature. Interest rate changes with respect to cash and cash equivalents will therefore not have a significant impact on earnings.

The company has no foreign currency exposure.

ANNEXURE A

SIGNIFICANT SUBSIDIARY COMPANIES

Companies	Country of incorporation, where not South Africa	Interest held		Cost		Loans capitalised	
		2015 %	2014 %	2015 Rm	2014 Rm	2015 Rm	2014 Rm
MMI Group Ltd		100	100	18 096	18 096	–	–
<i>Subsidiary companies</i>							
Momentum Finance Company (Pty) Ltd		100	100				
Momentum Alternative Insurance Ltd		100	100				
Momentum Ability Ltd		100	100				
Momentum Medical Scheme Administrators (Pty) Ltd		100	100				
Momentum Consult (Pty) Ltd		100	100				
Momentum Life Botswana Ltd	Botswana	100	100				
Momentum Asset Management (Pty) Ltd		100	100				
Momentum Global Investment Management Ltd	United Kingdom	100	100				
Momentum Collective Investments (RF) (Pty) Ltd		100	100				
Momentum Alternative Investments (Pty) Ltd		100	100				
Momentum Outcome-Based Solutions (Pty) Ltd (<i>previously Momentum Managers of Managers (Pty) Ltd</i>)		100	100				
Momentum Wealth (Pty) Ltd		100	100				
Momentum Wealth International Ltd	Guernsey	100	100				
102 Rivonia Road (Pty) Ltd		80	80				
Momentum Short-term Insurance Company Ltd		100	100				
MMI Short-term Insurance Administration (Pty) Ltd		100	100				
Momentum Interactive (Pty) Ltd		100	100				
Metropolitan Odyssey Ltd		100	100	36	36	–	–
Metropolitan International Holdings (Pty) Ltd		100	100	864	767	483	–
<i>Subsidiary companies</i>							
MMI Holdings Namibia Ltd	Namibia	96.5	96.5				
Metropolitan Life (Mauritius) Ltd	Mauritius	70	70				
Metropolitan Life Zambia Ltd	Zambia	100	100				
UBA Metropolitan Life Insurance Ltd	Nigeria	50	50				
Metropolitan Life Insurance Kenya Ltd	Kenya	96	96				
Cannon Assurance Ltd	Kenya	96	–				
Metropolitan Life Insurance Ghana Ltd	Ghana	100	96.2				
Metropolitan Life Swaziland Ltd	Swaziland	67	67				
Metropolitan Insurance (Swaziland) Ltd	Swaziland	100	100				
Metropolitan International Support (Pty) Ltd		100	100	–	–	116	–
Metropolitan Tanzania Life Assurance Company Ltd	Tanzania	66.7	66.7				
Subtotal				18 996	18 899	599	–

Companies <i>continued</i>	Country of incorporation, where not South Africa	Interest held		Cost		Loans capitalised	
		2015 %	2014 %	2015 Rm	2014 Rm	2015 Rm	2014 Rm
Subtotal carried forward				18 996	18 899	599	–
Momentum Mozambique LDA	Mozambique	66.7	66.7				
MMI Finance Company (Pty) Ltd		100	100	400	400	237	252
Metropolitan Life International Ltd		100	100	47	47	–	–
Metropolitan Life of Botswana Ltd	Botswana	100	75.8	73	73	–	–
Metropolitan Lesotho Ltd	Lesotho	100	100	120	120	–	–
Momentum Retirement Administrators (Pty) Ltd		80	80	28	28	–	–
MMI Strategic Investments (Pty) Ltd		100	–	52	12	–	–
<i>Subsidiary companies</i>							
Imara S.P Reid (Pty) Ltd		100	–				
Guardrisk Life Ltd		100	100				
Guardrisk Life International Ltd	Mauritius	100	100				
Guardrisk Allied Products & Services (Pty) Ltd		100	100				
Guardrisk Insurance Company Ltd		100	100				
Guardrisk International Ltd PCC	Mauritius	100	100				
MMI Holdings UK Ltd	United Kingdom	100	100				
<i>Subsidiary companies</i>							
Euroguard Insurance Company PCC Ltd	Gibraltar	100	100				
Momentum Financial Technology Ltd (previously Blue Speck Financial Ltd)	United Kingdom	100	–				
Financial Partners Ltd	Hong Kong	100	–				
Metropolitan Asset Managers Ltd		100	100	23	23	–	–
Metropolitan Collective Investments (RF) (Pty) Ltd		100	100	26	26	–	–
Eris Property Group (Pty) Ltd		54.3	54.3	262	262	–	–
Metropolitan Health (Pty) Ltd		100	100	32	32	642	304
<i>Subsidiary companies</i>							
Metropolitan Health Corporate (Pty) Ltd		100	100				
MetHealth (Pty) Ltd		100	100				
Metropolitan Health Risk Management (Pty) Ltd		100	100				
CareCross (Pty) Ltd		100	–				
Global Doctor Networks (Pty) Ltd		81.2	–				
Hello Doctor (Pty) Ltd		100	–				
Momentum Trust Ltd		100	100	8	8	–	–
Less: impairments				(408)	(381)	–	(136)
Total interest in subsidiary companies				19 659	19 549	1 478	420

ANNEXURE A CONTINUED

	2015 Rm	2014 Rm
Other loans to/(from) subsidiaries		
MMI Strategic Investments (Pty) Ltd	324	–
MMI Infrastructure and Operations (Pty) Ltd	266	129
MMI Short-term Insurance Administration (Pty) Ltd	175	–
Momentum Medical Scheme Administrators (Pty) Ltd	132	–
Metropolitan Capital (Pty) Ltd	46	46
MetHealth (Pty) Ltd	31	31
MMI Group Ltd	6	–
Union Money (Pty) Ltd	2	2
	982	208
Less: impairments	(271)	(163)
Loans to subsidiary companies	711	45
MMI Group Ltd	–	(160)
Loans from subsidiary companies	–	(160)

At 30 June the following collective investment schemes (CIS) were subsidiaries of the group:

SIGNIFICANT CIS SUBSIDIARY COMPANIES	Interest held		Carrying value	
	2015 %	2014 %	2015 Rm	2014 Rm
Momentum IF Global Equity Class A USD Fund	70.4	77.5	14 475	14 120
Momentum MF Global Balanced A USD Fund	100	100	6 832	7 231
Momentum MF Global Aggressive Sub Fund	100	100	6 108	6 133
Momentum Money Market Fund	37.9	41.1	3 815	3 658
Momentum Balanced Fund	76.5	72.5	3 522	3 204
Momentum MoM Ultra Long-Term Value Fund	99.9	99.2	2 784	2 402
Momentum MoM High Growth Fund	100	99.8	2 271	1 966
Momentum Global Growth Fund IC Ltd Class A, Accumulating	94.7	*	2 198	*
Momentum MoM Macro Value Fund	100	99.1	2 007	2 199
Momentum MoM Property Equity Fund	99.9	99.7	1 841	1 354
Momentum MoM Specialist Equity Fund (A)	100	100	1 541	749
Momentum Best Blend Multifocus Fund of Funds	99.7	99.5	1 469	1 534
Momentum MoM Emerging Manager Growth Fund	100	100	1 435	1 122
Momentum IF Global Fixed Income A USD Fund	97.7	92.8	1 429	1 615
Momentum MoM Real Return Fund	100	100	1 411	1 604
Momentum MF Global Moderate Sub Fund	100	100	1 178	967
Momentum IF Global Emerging Markets A USD Fund	95.7	89.4	1 116	1 141
Momentum Best Blend Balanced Fund of Funds	75.8	72.6	1 066	826
Ampersand Momentum CPI Plus 4% Fund of Funds	59.2	57.4	916	845
Ampersand Momentum Equity Fund	100	*	892	*
Momentum MF International Equity A USD Fund	100	100	855	951
Momentum Best Blend Specialist Equity Fund (A)	56.7	53.4	764	620
Momentum Bond Fund	68.7	*	754	*
Momentum Best Blend Flexible Income Fund	87.4	58.8	750	539
Momentum International Equity Feeder Fund	55.1	*	726	*
Ampersand Momentum CPI Plus 2% Fund of Funds	53.4	56.5	677	657
Momentum Global Managed Fund IC Ltd	94.7	95.6	663	1 222
Momentum MoM Active Bond Fund (B1)	100	100	653	590
Momentum Property Fund	59.6	*	624	*
Momentum Factor 7 Fund of Funds	69.8	*	601	*
Saffron MET Inflation Linked Bond	99.9	*	534	*
VFPF International Growth Fund IC Ltd Class B, Accumulating	69.6	*	533	*
Momentum GF Global Franchise Fund	98.1	100	522	579
Momentum Global Equity Fund	*	97.4	*	1 470
Momentum MoM Emerging Manager Value Fund	*	100	*	1 131
Momentum MoM Focused Equity Fund	*	99.4	*	921
Momentum GF Global Contrarian Fund	*	100	*	754
Momentum Optimal Yield Fund	*	94.9	*	572

* Not included in subsidiaries for year

Fund name	Domicile
Momentum IF Global Equity Class A USD Fund	Luxembourg
Momentum MF Global Balanced A USD Fund	Luxembourg
Momentum MF Global Aggressive Sub Fund	Luxembourg
Momentum IF Global Fixed Income Fund A USD Fund	Luxembourg
Momentum Global Equity Fund	Guernsey
Momentum Global Managed Fund IC Ltd	Guernsey
Momentum IF Global Emerging Markets A USD Fund	Luxembourg
Momentum MF Global Moderate Sub Fund	Luxembourg
Momentum GF Global Franchise Fund	Luxembourg
Momentum MF International Equity A USD Fund	Luxembourg
VFPF International Growth Fund IC Ltd Class B, Accumulating	Guernsey

ANNEXURE B

UNCONSOLIDATED STRUCTURED ENTITIES

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls it. The group considers collective investment schemes and other unit-linked investments to be structured entities. This annexure provides information on significant unconsolidated structured entities in which the group holds an interest.

Collective investment schemes and other unit-linked investments

Unit-linked investments comprise local and foreign collective investment schemes as well as other unit-linked investments. Collective investment schemes are categorised into property, equity or interest-bearing instruments based on a minimum of 55% per category of the underlying asset composition of the fund by value. In the event of no one category meeting this threshold, it is classified as a mixed asset class. Money market collective investment schemes are categorised as such.

Unlisted and unquoted unit-linked instruments are mainly exposed to equity, comprising investments in hedge funds and private equity funds, or interest-bearing instruments, comprising mezzanine funding and structured guaranteed income products. It includes investments where the exposure is subject to the underlying investments, comprising investments in pooled funds as well as investments backing policies where the group is the policyholder of an investment contract issued by other insurance companies. Where the group is the contract holder of investment contracts at another institution, but does not have title to the underlying investment assets, it is allocated to a mixed asset class.

	2015 Rm	2014 Rm
Collective investment schemes		
Local and foreign	122 297	110 023
Equity	96 217	82 792
Interest-bearing	15 828	15 919
Property	5 115	2 862
Mixed	3 371	6 690
Money market	1 732	1 760
Commodity	34	–
Other unit-linked investments	22 408	22 358
Local and foreign		
Equity	7 595	7 448
Interest-bearing	1 981	2 020
Mixed	11 691	10 935
Commodity	1 141	1 955
	144 705	132 381
Designated at fair value through income: unit-linked investments	132 330	120 477
Investments in associates designated at fair value through income	12 362	11 900
Available-for-sale: local unlisted quoted collective investment schemes	13	4
	144 705	132 381

Detail on investments in associates designated at fair value through income

The group holds a significant investment in the following associates designated at fair value through income:

Name 2015	Carrying value Rm	% interest held	Nature of relationship	Principal place of business
Fairtree Equity Prescient Fund	1 677	75.8%	Standard investment	Bellville
Truffle Institutional Equity Fund ¹	1 180	67.4%	Standard investment	Hyde Park
Momentum Enhanced Yield Fund	1 038	20.7%	Standard investment	Sandton
2014				
Fairtree Equity Prescient Fund	1 115	80.9%	Standard investment	Bellville
Momentum Enhanced Yield Fund	1 018	18.5%	Standard investment	Sandton

Summarised financial information relating to the associates above:

2015	Fairtree Equity Prescient Fund Rm	Truffle Institutional Equity Fund ¹ Rm	Momentum Enhanced Yield Fund Rm
Current assets	61	56	556
Non-current assets	1 965	1 412	4 594
Current liabilities	81	13	109
Non-current liabilities	–	1 455	4 662
Revenue	367	268	437
Earnings	306	230	379
Dividends received from associate	40	18	–

2014	Fairtree Equity Prescient Fund Rm	Momentum Enhanced Yield Fund Rm
Current assets	51	5
Non-current assets	1 349	5 493
Current liabilities	23	95
Revenue	63	458
Earnings	62	413
Dividends received from associate	22	6

¹ This associate was not considered to be significant in the prior year.

ANNEXURE B CONTINUED

UNCONSOLIDATED STRUCTURED ENTITIES

Other unconsolidated structured entities

The table below provides information on significant other unconsolidated structured entities in which the group holds an interest. The maximum exposure to loss is the carrying value of the assets held.

Name of entity	Investment type	Nature and purpose of business	How the entity is financed?	Carrying value ¹		Income received ²	
				2015 Rm	2014 Rm	2015 Rm	2014 Rm
iNguza Investments (Pty) Ltd	Interest-bearing notes	Issuing of commercial paper and other debt instruments to investors in order to acquire the rights and obligations of third parties underwritten loan agreements and/or other securities meeting the eligibility criteria established by the entity	Issuing of debt instruments	1 034	1 093	72	37
Nqaba Finance 1 (Pty) Ltd	Floating rate note	Securitisation vehicle set up by Eskom Finance Company to finance mortgage loans	Funding received from the South African capital market	474	511	22	30
Thekwini Fund 9 (Pty) Ltd ³	Floating rate note	Special purpose vehicle set up by South African Home Loans (Pty) Ltd to finance mortgage loans	Funding received from the South African capital market	633	–	34	–
Superdrive Investments (RF) Ltd ³	Floating rate note	Asset-backed securitisation set up by Standard Bank Group and BMW Financial Services	Funding received from local institutional investors	537	–	34	–
				2 678	1 604	162	67

¹ Included in securities designated at fair value through income in the statement of financial position. The carrying value represents the group's maximum exposure.

² Consists of interest income and fair value gains/losses.

³ These listed securitisations were not considered significant in the prior year.

⁴ The group has not sponsored any significant unconsolidated structured entities in which it holds an interest.

SHAREHOLDER PROFILE

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors (excluding shares in staff share scheme)	8	0.2	2
Kagiso Tiso Holdings (Pty) Ltd	2	7.1	114
RMI Holdings Ltd	1	24.5	393
Government Employees Pension Fund	5	10.2	163
Public			
Private investors	23 609	3.9	63
Pension funds	263	2.7	44
Collective investment schemes and mutual funds	4 310	38.1	611
Banks and insurance companies	146	13.3	214
Total	28 344	100.0	1 604

An estimated 457 million shares (2014: 423 million shares) representing 28.5% (2014: 26.4%) of total shares are held by foreign investors.

SIZE OF SHAREHOLDING	Number of shareholders	% of total shareholders	Shares held (million)	% of issued share capital
1 – 5 000	23 650	83.4	25	1.6
5 001 – 10 000	1 943	6.9	14	0.9
10 001 – 50 000	1 805	6.4	39	2.4
50 001 – 100 000	346	1.2	25	1.5
100 001 – 1 000 000	473	1.7	141	8.8
1 000 001 and more	127	0.4	1 360	84.8
Total	28 344	100.0	1 604	100.0

BENEFICIAL OWNERS	Shares held (million)	% of issued share capital
RMI Holdings Ltd	393	24.5
Government Employees Pension Fund	163	10.2
Kagiso Tiso Holdings (Pty) Ltd	114	7.1
FirstRand Empowerment Trust	47	2.9
Total	717	44.7

Pursuant to the provisions of section 56(7)(b) of the South African Companies Act, 71 of 2008, as amended, beneficial shareholdings exceeding 5% in aggregate, as at 30 June 2015, are disclosed.

STOCK EXCHANGE PERFORMANCE

	2015	2014
12 months		
Value of listed shares traded (rand million)	19 153	15 362
Volume of listed shares traded (million)	642	637
Shares traded (Percentage of average listed shares in issue)	41	41
Value of shares traded – life insurance (J857 – Rbn)	230	165
Value of shares traded – top 40 index (J200 – Rbn)	3 464	3 069
Trade prices		
Highest (cents per share)	3 475	2 783
Lowest (cents per share)	2 502	2 039
Last sale of period (cents per share)	3 015	2 625
Percentage (%) change during period	15	18
Percentage (%) change – life insurance sector (J857)	11	28
Percentage (%) change – top 40 index (J200)	–	31
30 June		
Price/diluted core headline earnings (segmental) ratio	12.6	11.6
Dividend yield % (dividend on listed shares)	5.1	5.4
Dividend yield % – top 40 index (J200)	3.0	2.6
Total shares issued (million)		
Listed on JSE	1 572	1 570
Treasury shares held on behalf of contract holders	(14)	(14)
Basic number of shares in issue	1 558	1 556
Treasury shares held on behalf of contract holders	14	14
Convertible redeemable preference shares	32	34
Diluted number of shares in issue¹	1 604	1 604
Market capitalisation at end (Rbn) ²	48	42
Percentage (%) of life insurance sector	13	12

¹ The diluted number of shares in issue takes into account all issued shares, assuming conversion of the convertible redeemable preference shares, and includes the treasury shares held on behalf of contract holders.

² The market capitalisation is calculated on the fully diluted number of shares in issue.

Financial year-end	30 June	
Reporting	Interim results	4 March 2015
	Announcement of year-end results	9 September 2015
	Annual report published	30 September 2015
	Annual general meeting	20 November 2015
Ordinary dividends	Interim	
	Declared	3 March 2015
	Remat/Demat	23 March 2015 to 27 March 2015
	Record date	27 March 2015
	Paid	30 March 2015
	Final	
	Declared	8 September 2015
	Remat/Demat	28 September 2015 to 2 October 2015
	Record date	2 October 2015
	Paid	5 October 2015

NOTICE OF ANNUAL GENERAL MEETING

NOTICE TO MEMBERS OF THE 14TH (FOURTEENTH) ANNUAL GENERAL MEETING OF MMI HOLDINGS LIMITED (“MMI” OR THE “COMPANY”)

Notice is hereby given (the “notice”) that the 14th (fourteenth) annual general meeting (“AGM”) of the shareholders of the company, for the year ended 30 June 2015, will be held at 13:30 on Friday, 20 November 2015, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion. Registration for attendance at the AGM will commence at 12:30.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about what action you should take, consult your broker, Central Securities Depository Participant (“CSDP”), banker, financial adviser, accountant or other professional adviser immediately.

If you have disposed of all your shares in MMI, please forward this document, together with the enclosed form of proxy, to the purchaser of such shares or the broker, banker or other agent through whom you disposed of such shares.

INCLUDED IN THIS DOCUMENT ARE THE FOLLOWING:

- The resolutions to be proposed at the meeting, together with explanatory notes. There are also guidance notes if you wish to attend the meeting or to vote by proxy.
- A proxy form for completion, signature and submission to the transfer secretaries of the company by shareholders holding MMI ordinary shares in certificated form or recorded in sub-registered electronic form in “own name”.

ELECTRONIC PARTICIPATION IN THE AGM

Please note that the company intends to make provision for shareholders of MMI, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so in the manner and form set out below. In this regard, video-conferencing facilities will only be made available in the Madiba VC Room, 1st Floor Parc du Cap Building 7, Mispel Road, Bellville, Cape Town.

Should you wish to participate in the AGM electronically, you or your proxy are required to confirm your attendance and participation at the Bellville location by delivering written notice to the company, at the address detailed hereunder, by no later than 16:00 on Friday, 13 November 2015. The above-mentioned facility will only be made available on the date of the AGM if you have notified the company on/before 16:00 on 13 November 2015 that you intend to participate in the AGM by electronic means from Bellville. Should you fail to notify the company timeously of your intention in writing, this facility will not be available on the date of the AGM.

Please note that the cost of the video-conferencing facility will be for the account of the company.

Please also note the important provisions regarding identification of shareholders attending the AGM, the appointment of proxies and voting detailed on page 271 of this notice.

RECORD DATE AND LAST DAY TO TRADE

The MMI board of directors (the “board”) has determined that the record date for the purpose of determining which shareholders of the company are entitled to receive this notice was Friday, 18 September 2015, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 13 November 2015. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 13 November 2015, will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote at the AGM will therefore be Friday, 6 November 2015.

BUSINESS TO BE TRANSACTED

The purpose of the AGM is for the following business to be transacted:

- presentation of the report of the board of directors of the company
- presentation of the Audit Committee’s report
- verbal report from the Social, Ethics and Transformation Committee (A full copy of this report can be found on pages 273 and 274.)
- presentation of the annual financial statements of the company for the financial year ended 30 June 2015 (Should you require a complete copy of the annual financial statements for the preceding financial year, this can be accessed on the MMI website at www.mmiholdings.com.)
- election of the directors of the company
- approval of the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company for the ensuing financial year or until the next AGM, whichever is the later date
- approval of the appointment of the Audit Committee of the company

- to consider and, if deemed fit, to pass, with or without modification, the ordinary and special resolutions set out below
- to transact such other business as may be transacted at an AGM

For each ordinary resolution to be adopted, it must be supported by at least 50% (fifty percent) plus 1 (one) of the voting rights exercised on the resolution, unless a higher requirement has been prescribed in terms of the Listings Requirements of the JSE Limited (the “Listings Requirements”).

For each special resolution to be adopted, it must be supported by at least 75% (seventy five percent) of the voting rights exercised on the resolution.

1. ORDINARY RESOLUTION NUMBER 1

ELECTION OF DIRECTOR APPOINTED BY THE BOARD

Ms M Vilakazi was appointed by the board of directors of the company with effect from 1 July 2015. In accordance with the Companies Act, 71 of 2008, as amended (the “Act”) and the memorandum of incorporation of the company (the “MOI”), Ms Vilakazi resigns and, being available, has offered herself for election by shareholders of the company. Her brief curriculum vitae is presented on the MMI website www.mmiholdings.com.

Ms Vilakazi’s performance and contribution, was assessed by the MMI Audit and Nominations Committees as well as the board, and the board recommends her election as a director of the company. Accordingly, the shareholders are requested to consider and, if deemed fit, to elect Ms Vilakazi as a director of the company.

“Resolved as an ordinary resolution that Ms M Vilakazi be and is hereby elected as a director of the company with effect from 1 July 2015.”

EFFECT OF ORDINARY RESOLUTION NUMBER 1

If ordinary resolution number 1 is passed, the effect will be that Ms Vilakazi will be appointed as a director of the company with effect from 1 July 2015.

2. ORDINARY RESOLUTION NUMBER 2

RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

In accordance with the MOI, at least one third of the directors of the company are required to retire by rotation as directors of the company at this AGM. In these circumstances Messrs FJC Truter, BJ van der Ross, KC Shubane, L Crouse and SA Muller retire by rotation in accordance with the MOI and, being eligible, have offered themselves for re-election.

Brief curricula vitae of those directors standing for re-election are published on the MMI website www.mmiholdings.com.

Accordingly, the shareholders are requested to consider and, if deemed fit, to re-elect those directors by way of passing the separate ordinary resolutions set out below:

ORDINARY RESOLUTION 2.1

“Resolved as an ordinary resolution that Mr FJC Truter be and is hereby re-elected as a director of the company with immediate effect.”

ORDINARY RESOLUTION 2.2

“Resolved as an ordinary resolution that Mr BJ van der Ross be and is hereby re-elected as a director of the company with immediate effect.”

ORDINARY RESOLUTION 2.3

“Resolved as an ordinary resolution that Mr KC Shubane be and is hereby re-elected as a director of the company with immediate effect.”

ORDINARY RESOLUTION 2.4

“Resolved as an ordinary resolution that Mr L Crouse be and is hereby re-elected as a director of the company with immediate effect.”

ORDINARY RESOLUTION 2.5

“Resolved as an ordinary resolution that Mr SA Muller be and is hereby re-elected as a director of the company with immediate effect.”

EFFECT OF ORDINARY RESOLUTION NUMBER 2

If each ordinary resolution detailed in 2 above is passed, the effect will be that Messrs FJC Truter, BJ van der Ross, KC Shubane, L Crouse and SA Muller will be re-appointed as directors of the company with immediate effect.

3. ORDINARY RESOLUTION NUMBER 3

RE-APPOINTMENT OF EXTERNAL AUDITORS

“Resolved as an ordinary resolution that the company hereby approves the re-appointment of PricewaterhouseCoopers Inc. as the external auditors of the company for the ensuing financial year or until the next AGM, whichever is the later date.”

Note that the Audit Committee has recommended the re-appointment of PricewaterhouseCoopers Inc. as auditors of the company for the ensuing financial year or until the next AGM, whichever is the later date.

EFFECT OF ORDINARY RESOLUTION NUMBER 3

If ordinary resolution number 3 is passed, the effect will be that PricewaterhouseCoopers Inc. will be re-appointed as auditors of the company for the ensuing financial year or until the next AGM, whichever is the later date.

4. ORDINARY RESOLUTION NUMBER 4

APPOINTMENT OF THE AUDIT COMMITTEE

The company is required to approve the appointment of the Audit Committee of the company.

Accordingly, the shareholders are requested to consider and approve the appointment of the Audit Committee by way of passing the separate ordinary resolutions set out below:

The board is also satisfied that the proposed members meet the provisions of the Act, that they are independent and therefore recommends their appointment.

ORDINARY RESOLUTION 4.1

“Resolved as an ordinary resolution that the re-appointment of Mr FJC Truter as a member of the Audit Committee be and is hereby approved with immediate effect.”

ORDINARY RESOLUTION 4.2

“Resolved as an ordinary resolution that the re-appointment of Mr SA Muller as a member of the Audit Committee be and is hereby approved with immediate effect.”

ORDINARY RESOLUTION 4.3

“Resolved as an ordinary resolution that the re-appointment of Mrs F Jakoet as a member of the Audit Committee be and is hereby approved with immediate effect.”

ORDINARY RESOLUTION 4.4

“Resolved as an ordinary resolution that the re-appointment of Mr LL von Zeuner as a member of the Audit Committee be and is hereby approved with immediate effect.”

EFFECT OF ORDINARY RESOLUTION NUMBER 4

If each ordinary resolution detailed in 4 above is passed, the effect will be that Mr FJC Truter, Mr SA Muller, Mrs F Jakoet and Mr LL von Zeuner will be re-appointed as the Audit Committee of the company.

5. ORDINARY RESOLUTION NUMBER 5

NON-BINDING ADVISORY VOTE ON THE REMUNERATION POLICY

“Resolved as an ordinary resolution that, as contemplated in King III, which requires that the remuneration policy of the company be tabled to shareholders for a non-binding advisory vote, the shareholders approve the remuneration policy of the company (excluding the remuneration of the non-executive directors), read together with the remuneration report contained on page 62 of the integrated report and also on the company’s website at www.mmiholdings.com.”

EFFECT OF ORDINARY RESOLUTION NUMBER 5

If ordinary resolution number 5 is passed as a non-binding advisory vote, the effect will be that the remuneration policy of the company will be approved.

6. ORDINARY RESOLUTION NUMBER 6

APPOINTMENT OF DIRECTOR OR COMPANY SECRETARY TO IMPLEMENT RESOLUTIONS

“Resolved as an ordinary resolution that any one director of the company or the company secretary be and is hereby authorised to take such steps, do all such things and sign all such documents as may be necessary or required for the purpose of implementing the ordinary and special resolutions proposed and passed at this meeting.”

EFFECT OF ORDINARY RESOLUTION NUMBER 6

If ordinary resolution number 6 is passed, the effect will be that any director of the company or the company secretary will be authorised to attend to the necessary issues, to implement the resolutions and to sign all documentation required to record the ordinary and special resolutions.

7. SPECIAL RESOLUTION NUMBER 1

APPROVAL OF DIRECTORS' REMUNERATION

In compliance with the provisions of section 66(9) of the Act, the shareholders are required to approve the remuneration of the non-executive directors of the company. It is proposed that non-executive directors of the company will be paid a fixed annual fee for the services they render to the company as detailed in special resolution number 1 below. The proposed directors' fees will not be dependent on attendance by the relevant director of board and committee meetings, and have been determined by the Remuneration Committee and approved by the board. The Remuneration Committee approved an increase of 6.5% overall (to the fees approved at the previous AGM) in respect of the non-executive directors' fees. The proposed directors' fees will be adjusted on an annual basis.

“Resolved as a special resolution that non-executive directors of the company shall be paid fees for services rendered, in accordance with the scale of remuneration set out below with effect from 1 September 2015, and such scale of remuneration shall be valid until the company's next AGM:

	Current	Recommended
Chairperson of the board	R1 213 620	R1 292 500
Deputy chairperson of the board	R606 840	R646 280
Board member	R436 650	R465 030
Chairperson of audit committee	R364 070	R387 730
Member	R181 480	R193 280
Chairperson of actuarial committee	R302 830	R322 510
Member	R181 480	R193 280
Chairperson of remuneration committee	R302 830	R322 510
Member	R150 860	R160 660
Chairperson of risk, capital and compliance committee	R364 070	R387 730
Member	R181 480	R193 280
Chairperson of social, ethics and transformation committee	R242 720	R258 500
Member	R150 860	R160 660
Chairperson of nominations committee	R181 480	R193 280
Member	R90 740	R96 640
Chairperson of fair practices committee	R242 720	R258 500
Member	R150 860	R160 660
Chairperson of board*	R242 700	R258 500
Member*	R150 800	R160 660
Ad hoc work (hourly)	R4 250	R4 525

* Boards established for segments and the Product House in terms of the new MMI client-centric model.

The revised scale of remuneration will be effective from 1 September 2015 in accordance with company policy. Therefore, the difference (if any) between the remuneration paid to non-executive directors in terms of the scale of fees approved at the company's previous AGM held in 2014 and the scale approved in terms of special resolution number 1 above (i.e. the shortfall) in the period since 1 September 2015, shall be paid to non-executive directors.

Executive directors shall not be remunerated for their services as directors of the company or its subsidiaries.”

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 1

The reason for special resolution number 1 is to obtain shareholders' approval for payment by the company of non-executive directors' remuneration as determined by the Remuneration Committee and approved by the board, and as detailed above. The passing of special resolution number 1 will have the effect that the company will be authorised to pay non-executive directors fees in accordance with the scale of remuneration detailed above for the services rendered to the company as directors.

8. SPECIAL RESOLUTION NUMBER 2

GENERAL APPROVAL TO PROVIDE FINANCIAL ASSISTANCE FOR SUBSCRIPTION OR PURCHASE OF SECURITIES IN RELATED OR INTER-RELATED ENTITIES IN TERMS OF SECTION 44 OF THE COMPANIES ACT

It is hereby noted that the company may from time to time provide financial assistance in terms of section 44 of the Act, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company (as contemplated in the Act, including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the "affiliates"), or for the purchase of any securities of the company or its affiliates, on such specific terms as may be authorised by the board.

It is further noted that the board of directors of the company shall not authorise any financial assistance contemplated in such special resolution unless the board:

1. is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (read with section 44(3)(b)(i));
2. is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 44(3)(b)(ii)); and
3. is satisfied any applicable conditions or restrictions respecting the granting of financial assistance set out in the company's MOI have been satisfied (section 44(4)).

In compliance with the requirements of the Act, the board is seeking a general authority from shareholders to cause the company to provide financial assistance for subscription and purchase of securities as set out in section 44 of the Act.

"Resolved as a special resolution that, in terms of and subject to the provisions of section 44 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance, by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates (including, without limitation, the giving of a guarantee to any subscriber, holder or purchaser of preference shares in any affiliate, as security for such affiliate's obligations under such preference shares), as set out in section 44 of the Act, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide financial assistance as contemplated in section 44 of the Act, on such terms and conditions and for such amounts as the board may determine."

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 2

The reason for special resolution number 2 is to grant the board a general authority in terms of the Act to cause the company to provide financial assistance by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or any affiliate, or for the purchase of any securities of the company or its affiliates, as set out in section 44 of the Act in such amounts and on such terms and conditions as may be determined by the board. The passing of special resolution number 2 will have the effect that the board will have the flexibility, subject to the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance as set out in section 44 of the Act should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

9. SPECIAL RESOLUTION NUMBER 3

GENERAL APPROVAL TO PROVIDE FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED ENTITIES IN TERMS OF SECTION 45 OF THE COMPANIES ACT

It is hereby noted that the company may from time to time provide financial assistance in terms of section 45 of the Act to persons who are related or inter-related (as contemplated in the Act) to the company (including, without limitation, any present or future subsidiaries of the company, its holding company and subsidiaries of its holding company and/or any other company or corporation that is or becomes related or inter-related to the company) (collectively for purposes of this resolution, the “affiliates”), whether in the form of loans and/or loan facilities, guarantees and/or guarantee facilities, mortgages, pledges, cessions, bonds or otherwise, on such specific terms as may be authorised by the board (collectively, for the purposes of this resolution, “financial assistance”).

It is further noted that the board of directors of the company shall not authorise any financial assistance contemplated in such special resolution unless the board:

1. is satisfied that immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test contemplated in section 4 of the Act (read with section 45(3)(b)(i));
2. is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company (section 45(3)(b)(ii)); and
3. is satisfied any applicable conditions or restrictions respecting the granting of financial assistance set out in the company’s MOI have been satisfied (section 45(4)).

In compliance with the requirements of the Act, the board is seeking a general authority from shareholders to cause the company to provide such financial assistance to affiliates.

“Resolved as a special resolution that, in terms of and subject to the provisions of section 45 of the Act, the shareholders of the company hereby approve, as a general approval, the giving by the company of financial assistance to affiliates, which approval shall be valid for a period of 2 (two) years from the date this special resolution is passed. The shareholders of the company hereby resolve that the board may, subject to compliance with the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance to affiliates as contemplated in section 45 of the Act, on such terms and conditions and for such amounts as the board may determine.”

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 3

The reason for special resolution number 3 is to grant the board a general authority in terms of section 45 of the Act to cause the company to provide financial assistance to any affiliate in such amounts and on such terms and conditions as may be determined by the board. The passing of special resolution number 3 will have the effect that the board will have the flexibility, subject to the requirements of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, to provide financial assistance to affiliates should it be in the interests of the company to do so. This general authority shall be valid for a period of 2 (two) years from the date of approval of this special resolution unless such general authority is varied or revoked by special resolution of shareholders prior to the expiry of such 2 (two)-year period.

10. SPECIAL RESOLUTION NUMBER 4

GENERAL APPROVAL OF SHARE BUY-BACK

It is hereby noted that the company and/or its subsidiaries may from time to time acquire securities issued by the company. In this regard, it is proposed that the company renew its general approval for a share buy-back with the following special resolution:

“Resolved as a special resolution that the company hereby approves, by way of a general approval, the repurchase by the company or any of its subsidiaries from time to time of shares issued by the company upon such terms and conditions and in such amounts as the board of the company may from time to time determine, but subject to the provisions of the MOI, the Act, the Listings Requirements and the requirements of any other stock exchange upon which the shares of the company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, and subject further to the following conditions:

- Any acquisition in terms hereof may only be effected through the order book operated by the JSE trading system and may only be done without any prior understanding or arrangement between the company and the counterparty.
- The company is authorised thereto by its MOI.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

- This general approval shall be valid only until the company's next AGM, provided that it does not extend beyond 15 (fifteen) months from the date of this resolution, during which time this general approval may be varied or revoked by special resolution passed at a general meeting of the company.
- Any such acquisitions of the company's shares shall be announced when an aggregate of 3% (three percent) of the initial number of shares of the relevant class has been purchased and for each 3% (three percent) in aggregate of the initial number of shares of that class acquired thereafter.
- In determining the price at which the ordinary shares are repurchased by the company or its subsidiary in terms of this general authority, the maximum price at which such shares may be repurchased will not be greater than 10% (ten percent) above the weighted average of the market value for such ordinary shares for the 5 (five) business days immediately preceding the date of repurchase of such shares.
- In the case of an acquisition by a subsidiary of the company of shares in the company under this general approval, such acquisition shall be limited to a maximum of 10% (ten percent) in aggregate of the number of issued shares of any class of shares of the company, taken together with all the shares held by all the subsidiaries of the company, at the time of such acquisition.
- The general repurchase by the company of its own shares shall not, in aggregate in any one financial year, exceed a maximum of 20% (twenty percent) of the company's issued shares of that class in any one financial year.
- The board shall, by resolution, authorise the repurchase, confirm that the company has passed the solvency and liquidity test detailed in the Act in relation to the repurchase of securities, and confirm that since the solvency and liquidity test was applied, there have been no material changes to the financial position of the company or the group.
- At any time, the company shall only appoint one agent to effect any acquisitions on the company's behalf in terms of this general approval.
- The company or its subsidiaries may not acquire the company's shares during a prohibited period as defined in terms of the Listings Requirements, unless it has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation), and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period."

DIRECTORS' STATEMENT IN RELATION TO THE SHARE REPURCHASE AS REQUIRED IN TERMS OF THE LISTINGS REQUIREMENTS

Pursuant to, and in terms of, the Listings Requirements, the board herewith states that in determining the method by which the company intends to repurchase its shares, the maximum number of shares to be repurchased and the dates upon which such repurchases will take place, the board will only make such repurchases if, at the time of the repurchase, the board is of the opinion that the requirements of sections 4, 46 and 48 of the Act and the Listings Requirements will have been complied with, and that:

- The company and the group will be able in the ordinary course of business to pay its debts as they become due for a period of 12 (twelve) months after the date of this notice.
- The consolidated assets of the company and the group will be in excess of the consolidated liabilities of the company and the group for a period of 12 (twelve) months following the date of this notice. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements, which comply with the Act.
- The ordinary share capital and reserves of the company and the group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice.
- The working capital available to the company and the group will be adequate for ordinary business purposes for a period of at least 12 (twelve) months after the date of this notice.

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 4

The reason for special resolution number 4 is to grant the board a general authority, in terms of the Listings Requirements and the MOI, for the acquisition by the company, or any subsidiary, of the company's shares. The passing of special resolution number 4 will have the effect of providing the board with the flexibility, subject to the provisions of the Act and the Listings Requirements, to acquire the company's shares should it be in the interests of the company to do so. This general authority shall be valid until its variation or revocation by special resolution at any subsequent general meeting of the company, provided that the general authority shall not be extended beyond 15 (fifteen) months from the date of approval of this special resolution.

GENERAL STATEMENTS AND INFORMATION

LISTINGS REQUIREMENTS

In accordance with the Listings Requirements, the following information relating to the matters detailed below can be found on the relevant page/s of the integrated report, namely:

- the major shareholders of the company – page 261
- the share capital of the company – page 243

STATEMENT OF ACCURACY OF INFORMATION

The directors, whose names are set out on pages 34 and 35 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information contained in this notice, the integrated report and accompanying documents, and certify that, to the best of their knowledge and belief, there are no facts that have been omitted, which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice, integrated report and accompanying documents contain all information required by law and the Listings Requirements.

MATERIAL CHANGES

Other than the facts and developments reported on in the integrated report, no material changes in the financial or trading position of the company and its subsidiaries have occurred between 30 June 2015 and the date of this notice.

SHAREHOLDER IDENTIFICATION, PROXIES AND VOTING

In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.

If you hold certificated shares (i.e. have not dematerialised your shares in the company) or are registered as an "own name" dematerialised shareholder (i.e. have specifically instructed your CSDP to hold your shares in your own name), then:

- you are entitled to attend and vote at the AGM or, alternatively,
- in accordance with the provisions of section 58 of the Act, you are entitled to appoint one or more proxies (who need not be shareholders of the company) to attend, speak and, on a poll, to vote or abstain from voting in your stead by completing the form of proxy enclosed with the notice. You should pay careful attention to the notes set out at the end of the form of proxy. The form of proxy must be received at the transfer secretaries office of the company, Link Market Services SA (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), by not later than 13:30 on Wednesday, 18 November 2015, or must be delivered to the MMI company secretary/Link Market Services representative in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion before the commencement of the AGM at 13:30 on Friday, 20 November 2015.

If you hold dematerialised shares (i.e. have replaced the paper share certificates representing your shares with electronic records of ownership under the JSE's electronic settlement system, Strate Limited ("Strate")), through a CSDP or broker, other than dematerialised shareholders with "own name" registration, you are not registered as a shareholder of the company but your CSDP or broker is so registered. In these circumstances, and subject to the mandate between yourself and your CSDP or broker (or their nominee),

- if you wish to attend the AGM, you must inform your CSDP or broker of your intention to attend and obtain the necessary letter of representation to do so from your CSDP or broker or, alternatively,
- if you are unable to attend the AGM but wish to be represented thereat, you should provide your CSDP or broker with your voting instructions. This must be done in the manner and time stipulated in the mandate between you and the CSDP or broker concerned. You should not complete the attached form of proxy.

On a poll, every shareholder present in person or represented by proxy shall have the number of votes determined in accordance with the voting rights associated with the shares held by such shareholder, which in the case of the company is one vote for every ordinary share held by such shareholder.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

Directors: MJN Njeke (chairman), JP Burger (deputy chairman), NAS Kruger (group chief executive officer), M Vilakazi (group finance director), L Crouse, F Jakoet, JD Krige, PJ Moleketi, SA Muller, V Nkonyeni, SE Nxasana, KC Shubane, FJC Truter, BJ van der Ross, JC van Reenen, LL von Zeuner.

By order of the board



Maliga Chetty
Group company secretary

8 September 2015

Registered office
268 West Avenue
Centurion
0157

REPORT BY THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

Report by the Social, Ethics and Transformation Committee to be presented at the 14th (fourteenth) annual general meeting of the shareholders of the company to be held at 13:30 on Friday 20 November 2015 in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion.

INTRODUCTION

The Social, Ethics and Transformation Committee (SETC) is mandated and authorised by the board of directors of MMI Holdings Limited ("MMI" or "the company") to fulfil the following monitoring and evaluation roles:

- transformation, focusing on broad-based black economic empowerment (B-BBEE) and employment equity;
- compliance with relevant social, ethical and legal requirements of the group as well as the best practice codes;
- risk, compliance and Treating Customers Fairly as they relate to ethical behaviour within the group;
- environmental sustainability; and
- corporate social investment

KEY ACTIVITIES OF THE COMMITTEE

TRANSFORMATION AND PEOPLE PRACTICES

Transformation and achievement of the approved revised group transformation strategy remains a key focus of the SETC. The committee monitors the progress of the group in ensuring that the racial imbalances of the past are corrected and that leadership and talent is encouraged by positive and affirmative policies.

In doing this, the SETC monitors the progress of the group in aligning its employment equity goals with National Economically Active Population (NEAP) targets, enhancing the development of talent within the group through proactive learning and development initiatives and increasing its procurement from black and black women-owned businesses.

B-BBEE VERIFICATION AT 31 DECEMBER 2014

The group finalised its annual B-BBEE verification for the 12-month period to 31 December 2014. The SETC is pleased to announce that MMI retained its Level 2 contributor status, measured under the requirements of the Financial Sector Code (FSC), with an overall score of 90.98 points. This verification included an assessment of all elements under the FSC, including empowerment finance and access to financial services. The group achieved its highest score to date, and now ranks third among its competitors from ranking fourth at 30 June 2014.

There were notable improvements from the last verification in the following areas:

- Skills development: The score improved by 3 points to almost 9 points out of 10. This was largely due to recognition of administration and learnership salary costs, and other learnerships.
- Preferential procurement: The score improved by a point, primarily due to the redirect strategy starting to have a positive impact. The first phase of the redirect strategy focuses on non-core commodities and aims to redirect the spend from non-compliant businesses to black and black women-owned businesses, as well as small and medium enterprises.
- Access to financial services: This score also improved by a point as a result of geographic mapping, which confirmed a higher market penetration than previously recorded.

CHANGES TO THE B-BBEE LEGISLATIVE LANDSCAPE

The Department of Trade and Industry's (dti) revised Codes of Good Practice (CoGP) became effective on 1 May 2015. The FSC Charter Council is in the process of aligning the FSC with the dti revised CoGP. This alignment is anticipated to be completed by the end of October 2015. All measured entities in the financial services sector with measurement periods ending on or after 1 May 2015 are required to be verified by applying either the aligned FSC or the dti revised CoGP. During this transition period of alignment of the FSC with the dti revised CoGP, MMI has planned for most eventualities and continues to monitor developments regularly.

The dti revised CoGP includes the concept of priority elements and we anticipate that the aligned FSC will do the same. MMI revised its group transformation strategy to ensure alignment with 2 (two) of the 3 (three) priority elements, being skills development and enterprise and supplier development. The approved revised strategy is also focused on the alignment of employment practices towards NEAP, learning and development of talent within the group, enhancing procurement from black and black women-owned exempt, small and medium enterprises and implementation of an enterprise development and supplier development programme.

VESTING OF FIRSTRAND EMPOWERMENT TRUSTS

During the calendar year 2014, the FirstRand Empowerment Trusts vested, with some beneficiaries electing to sell their shareholding, while others extended their investment to a future date. In excess of R650 million was realised by the beneficiaries that opted to sell their shares. The sale of shares and exit of a portion of black shareholders will not affect MMI, due to the

REPORT BY THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE CONTINUED

provision of continued recognition in the FSC. The provision allows MMI to recognise the same percentage of black shareholding prior to the sale of shares. In addition, the prescribed 40% sub-minimum net value as per the dti revised CoGP will be maintained for the foreseeable future, thus the group is not at risk of being discounted by a contributor level under the ownership element.

DEPARTMENT OF LABOUR DIRECTOR GENERAL REVIEW

MMI is undergoing the Department of Labour (DoL) Director General (DG) review in terms of section 43 of the Employment Equity Act, 55 of 1998.

The SETC would also like to report that the process of developing updated employment equity plans to align more fully with the NEAP targets is currently underway. In addition, divisional employment equity forums are in the process of being reconstituted to take into account the recommendations of the DoL.

CONCLUSION

The SETC confirms its support of the approved revised group transformation strategy, and the various initiatives in support of the implementation of the strategy. Progress towards the attainment of the stated goals and objectives is monitored on a periodic basis, and we remain confident of achieving our various targets.

ETHICAL CONDUCT

The group forensic services department reports to the SETC on a quarterly basis on any formal actions taken in respect of identified or alleged transgressions related to internal corruption, commercial crime and unethical behaviour by employees. In addition, this team reports on internal anti-corruption, anti-commercial crime interventions and related activities. The SETC has satisfied itself that the management of corruption, commercial crime and unethical employee behaviour is appropriately and effectively dealt with within the group.

TREATING CUSTOMERS FAIRLY

The SETC is tasked with reviewing the quarterly monitoring reports on activities relating to customer relations and the fair treatment of clients. The SETC assumes an oversight role on these activities, which are currently being monitored by the MMI Fair Practices Committee ("FPC"). This FPC is mandated by the MMI board to ensure that the fair treatment of clients is a core corporate value, embedded at all levels within MMI group.

ENVIRONMENTAL SUSTAINABILITY

The group actively subscribes to the requirements set out under the King Report on Governance, the United Nations Global Compact, the United Nations Principles of Responsible Investing and the Code for Responsible Investing in South Africa. In addition, the group strives to comply with relevant legislation relating to environment, social and governance ("ESG") enactments, and to generally address all indicators as set out in the Global Reporting Initiative ("GRI"). To this end, the group has a sustainability policy in place. The SETC considers quarterly reports on MMI's sustainability activities.

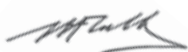
MMI has been listed on the Johannesburg Stock Exchange ("JSE") Social Responsibility Index since 2010. The group calculates its carbon footprint on an annual basis, and also participates in the CDP (formerly the Carbon Disclosure Project) process. An environmental policy aimed at addressing the above requirements and recommendations has been approved and is available on the MMI website.

CORPORATE SOCIAL INVESTMENT (CSI)

Various group CSI initiatives are administered through the MMI Foundation (Foundation). The main objectives of the Foundation remain in the areas of education, health, disability and sports development. The Foundation continues to support and fund projects within these identified focus areas. The support for various approved CSI initiatives is administered and executed through various MMI customer facing brands, such as Metropolitan, Momentum and Guardrisk.

CONCLUSION

No significant risks have been identified or have arisen during the past year in respect of the functions of the SETC recorded in the regulations and in the terms of reference of the SETC.



Mr Syd Muller
Chairman: MMI Social, Ethics and Transformation Committee

8 September 2015



MMI HOLDINGS

FORM OF PROXY

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration.

Fourteenth annual general meeting ("AGM") to be held at 13:30 on Friday, 20 November 2015, in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion.

I, _____ (full name)

of _____

Telephone number (____) _____ Cellphone number _____

E-mail address _____

being the holder of _____ (number) shares in MMI Holdings Ltd, hereby appoint as my proxy the following person:

_____ (full name of proxy holder)

of _____

or, failing him, _____ (full name of proxy holder)

of _____

or failing him, the duly appointed chairman of the meeting, to attend, speak and vote for me and on my behalf at the AGM of the company to be held in Centurion on Friday, 20 November 2015 at 13:30, as well as at any adjournment of the said meeting.

Signed at _____ on this _____ day of _____ 2015

SIGNATURE _____

VOTING INSTRUCTIONS

(Indicate instructions to the appointed proxy by way of a cross in the spaces provided below; if no indications are given, the proxy may vote as he thinks fit.)

ORDINARY RESOLUTIONS

Nature of resolution	For	Against	Abstain
1 Election of Ms M Vilakazi			
2.1 Re-election of Mr FJC Truter			
2.2 Re-election of Mr BJ van der Ross			
2.3 Re-election of Mr KC Shubane			
2.4 Re-election of Mr L Crouse			
2.5 Re-election of Mr SA Muller			
3 Re-appointment of PricewaterhouseCoopers Inc as external auditors			
Appointment of Audit Committee			
4.1 Re-appointment of Mr FJC Truter			
4.2 Re-appointment of Mr SA Muller			
4.3 Re-appointment of Mrs F Jakoet			
4.4 Re-appointment of Mr LL von Zeuner			
5 Non-binding advisory vote on the remuneration policy			
6 Appointment of director or company secretary to implement ordinary and special resolutions			

SPECIAL RESOLUTIONS

Nature of resolution	For	Against	Abstain
1 Approval of directors' remuneration			
Position			
Chairperson of the board	R1 292 500		
Deputy chairperson of the board	R646 280		
Board member	R465 030		
Chairperson of audit committee	R387 730		
Member	R193 280		
Chairperson of actuarial committee	R322 510		
Member	R193 280		
Chairperson of remuneration committee	R322 510		
Member	R160 660		
Chairperson of risk, capital and compliance committee	R387 730		
Member	R193 280		
Chairperson of social, ethics and transformation committee	R258 500		
Member	R160 660		
Chairperson of nominations committee	R193 280		
Member	R96 640		
Chairperson of fair practices committee	R258 500		
Member	R160 660		
Chairperson of board*	R258 500		
Member*	R160 660		
Ad hoc work (hourly)	R4 525		
2 General approval to provide financial assistance in terms of section 44 of the Companies Act			
3 General approval to provide financial assistance in terms of section 45 of the Companies Act			
4 General approval of share buy-back			

* Boards established for segments and the Product House in terms of the new MMI client-centric model.

Notes

1. The directors of the company determined that the record date for the purpose of determining which shareholders of the company are entitled to receive the notice of AGM was Friday, 18 September 2015, and the record date for purposes of determining which shareholders are entitled to participate in and vote at the AGM is Friday, 13 November 2015. Accordingly, only shareholders who are registered in the securities register of the company on Friday, 13 November 2015 will be entitled to participate in and vote at the AGM. The last day to trade in order to be entitled to vote at the AGM will therefore be Friday, 6 November 2015.
2. Proxies must be lodged at the company's transfer secretaries office, Link Market Services SA (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, Johannesburg (or PO Box 4844, Johannesburg 2000), so as to be received by not later than 13:30 on Wednesday, 18 November 2015, or must be delivered to the MMI company secretary/Link Market Services representative in the Executive Boardroom, 1st Floor, MMI Head Office, 268 West Avenue, Centurion before commencement of the AGM at 13:30 on Friday, 20 November 2015.
3. In accordance with the provisions of section 58 of the Companies Act, 71 of 2008 (the "Act"), shareholders have the right to be represented by proxy at shareholder meetings. A member may appoint one or more persons of his own choice as his proxy/ies by inserting the name/s of such proxy/ies in the space provided and any such proxy need not be a member of the company. Should this space be left blank, the proxy will be exercised by the chairman of the meeting.
4. If a member does not indicate on this instrument that his proxy is to vote in favour of or against any resolution or resolutions or to abstain from voting, or gives contradictory instructions, or should any further resolution/s or any amendment/s that may be properly put before the AGM be proposed, the proxy shall be entitled to vote as he thinks fit.
5. Subject to the restrictions set out in this form of proxy, a proxy may delegate his/her authority to act on behalf of a member to another person.
6. The appointment of the proxy shall be suspended to the extent that a member chooses to exercise any rights as a member in person. Furthermore, a member may revoke a proxy appointment by:
 - 6.1 cancelling the form of proxy in writing or making a later inconsistent appointment of a proxy.
 - 6.2 delivering a copy of the revocation instrument to the proxy and to the company, which revocation will constitute a complete and final cancellation of the proxy's authority to act on behalf of the member with effect from the date stated in the revocation instrument or the date on which it is delivered in terms of paragraph 5 above.
7. Unless the above section is completed for a lesser number of shares, this proxy shall apply to all the ordinary shares registered in the name of the member/s at the date of the AGM or any adjournment thereof.
8. Companies and other corporate bodies are advised to appoint a representative in terms of section 57(5) of the Act, for which purpose a duly certified copy of the resolution appointing such a representative should be lodged with the company's transfer secretaries office, as set out in 2 above.
9. The authority of the person signing a proxy form under a power of attorney must be attached hereto, unless that power of attorney has already been recorded by the company.
10. In accordance with the provisions of section 63(1) of the Act, before any person may attend or participate in a shareholders' meeting, that person must present reasonably satisfactory identification, and the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder or as a proxy for a shareholder, has been reasonably verified. Any shareholder of the company that is a company may authorise any person to act as its representative at the AGM.
11. Please note that the company intends to make provision for shareholders, or their proxies, to participate in the AGM by way of electronic communication, if requested to do so. In this regard, video-conferencing facilities will be made available in the Madiba VC Room, 1st Floor Parc du Cap Building 7, Mispel Road, Bellville, Cape Town. Should you wish to participate in the AGM electronically, you, or your proxy, are required to confirm your attendance and participation at the Bellville location by written notice delivered to the company, at the address detailed hereunder, by no later than 16:00 on Friday, 13 November 2015. The above-mentioned facilities will only be made available on the date of the AGM if you have notified the company on/before 16:00 on 13 November 2015 that you intend to participate in the AGM by electronic means from Bellville. Should you fail to notify the company timeously of your intention, this facility will not be available on the date of the AGM.
12. Any alterations made to this form of proxy must be initialled.

The group company secretary
MMI Holdings Ltd
268 West Avenue
Centurion
0157

MMI HOLDINGS LTD**Group company secretary and registered office**

Maliga Chetty
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Centurion
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Investor relations

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Natalie Amos

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namos@mmiholdings.co.za

Company registration

2000/031756/06

American Depository Receipt

CUSIP: 592144109
Depository: Bank of New York

Internet address

<http://www.mmiholdings.com>
E-mail: info@mmiholdings.co.za

Sponsor – South Africa

Merrill Lynch

Transfer secretaries – South Africa

Link Market Services SA (Pty) Ltd
13th Floor, Rennie House
19 Ameshoff Street
Braamfontein
PO Box 4844, Johannesburg 2000

Sponsor – Namibia

Simonis Storm Securities (Pty) Ltd

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Ltd
Shop 8, Kaiserkrone Centre
Post Street Mall, Windhoek, Namibia
PO Box 2301, Windhoek, Namibia

Auditors

PricewaterhouseCoopers Inc.

Share codes

JSE – MMI
NSX – MIM
Abbreviated name – MMI HLDGS

